

**THE \$350 BILLION QUESTION:
HOW TO SOLVE THE TAX GAP**

HEARING
BEFORE THE
COMMITTEE ON FINANCE
UNITED STATES SENATE
ONE HUNDRED NINTH CONGRESS
FIRST SESSION

APRIL 14, 2005



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THE \$350 BILLION QUESTION: HOW TO SOLVE THE TAX GAP

THURSDAY, APRIL 14, 2005

U.S. SENATE,
COMMITTEE ON FINANCE,
Washington, DC.

The hearing was convened, pursuant to notice, at 10:10 a.m., in room G-50, Dirksen Senate Office Building, Hon. Charles E. Grassley (chairman of the committee) presiding.

Also present: Senators Thomas, Crapo, Baucus, Conrad, Lincoln, and Wyden.

OPENING STATEMENT OF HON. CHARLES E. GRASSLEY, A U.S. SENATOR FROM IOWA, CHAIRMAN, COMMITTEE ON FINANCE

The CHAIRMAN. Thank you all very much for coming to a very important hearing on a very important day of April 14, the day just before tax day, which we all know for decades as being April 15.

The eve before tax day is different than Christmas Eve because taxpayers obviously have no choice on whether they want to give or receive, because at this particular time, we are all giving.

The eve before tax day is also different than New Year's Eve because taxpayers are spending it with pencils and calculators instead of champagne and noisemakers, although I suspect some people will be making a lot of noise in frustration as they try to figure out their tax return and as they try to navigate the Earned Income Tax Credit and the Alternative Minimum Tax.

People know how I have spoken out about the Alternative Minimum Tax. I want to give you an example. I do not think I am violating 6203 if I talk about my own tax return.

But I read in the *Wall Street Journal* that it takes 4 hours to figure the Alternative Minimum Tax. Now, I do not know whether it does or not. But about 3 weeks ago, my wife and I went to the little town of Allison, Iowa to do our income tax and I had to pay \$75 Alternative Minimum Tax. Now, does that not seem a little bit ridiculous and that we ought to be doing something about this?

Now, I am Chairman of the Senate Finance Committee. I have not gotten anybody interested in doing anything about it unless you've got some doggone big offset. It seems to me to be ridiculous to have a tax policy to offset a tax that we never intended to collect in the first place. I hope we can do something about that.

Now, continuing—and pardon me for digressing—unfortunately, while a strong majority of Americans seek to honestly pay the amount of tax that they owe and not one penny more, there are many who are playing fast and loose.

The problem of the tax gap is costing the Nation over \$300 billion a year in taxes that are not voluntarily paid. I say to my colleagues that there are no easy solutions or answers here.

I am worried that too often Senators and Representatives feel just a wave of the hand somehow can solve this problem, and just magically put these billions of dollars into the Nation's coffers. If it were that easy, we would have had this job done a long time ago.

So, we are fortunate to have the Comptroller General of the United States, Mr. Walker, here today, whose statement says, and says it very effectively, that ending the tax gap will be a "challenging task," and that there is no single solution. It will take multiple efforts on different fronts to address this issue.

As I said in last week's hearing involving charities and charitable giving, the tax gap, somewhat like a loaf of bread, is made up of many different slices. We need to understand each one better and look for several ways to address them.

But let me make it clear. We will work to address the tax gap. We owe nothing less to the millions of honest working families who find tax day the toughest day of the year. It is absolutely wrong that families have to tighten their belts and find new ways to keep the family budget balanced because others are not paying their fair share.

Today, our witnesses will talk about under-reporting, talk about under-payment, talk about non-filing of taxes. But we will also hear about cases of outright fraud. This is not a matter of taking advantage of complexities in the code or exploiting gray areas, but open, intentional evasion of fuel excise taxes or totally false claims for refunds of fuel taxes never paid on fuel that was not even purchased.

This type of fraud probably affects every American, because this is dedicated tax money that builds America's highways in every State of the Nation. For every dollar these bad guys steal, it is a dollar that does not make your bridges safe or fix potholes on your highways.

Last fall, as part of the American Jobs Creation Act, we were able to enact an anti-fuel fraud package estimated to raise \$9.3 billion by shutting down many of the schemes involved in fuel tax fraud. But criminals are creative, and we continue to investigate schemes that range from large-scale rings all the way down to mom-and-pop operations.

Unfortunately, the higher the price of gasoline, the more that they are motivated to do this by blending everything from used motor oil to discarded paint thinner and cleaning products by the billions of gallons to otherwise hide the true nature of gasoline that they may or may not get at the pump.

Unfortunately, they not only steal from the U.S. Government, but they are stealing from all of us as well. The tax gap is a \$350 billion problem, and we are working very hard, slice by slice, to find solutions for the American taxpayer.

Senator Baucus?

**OPENING STATEMENT OF HON. MAX BAUCUS,
A U.S. SENATOR FROM MONTANA**

Senator BAUCUS. Thank you, Mr. Chairman.

If everyone fully obeyed the law, our current tax code would bring in as much as \$353 billion each year. That is about \$1 billion a day in debt that the government would not be piling up, \$1 billion a day less borrowing, if collected.

Mr. Chairman, in just the time since you announced this hearing last Thursday, \$7 billion in taxes that are lawfully owed have gone uncollected. That number does not represent a new estimate based on the latest research. I suspect that the actual number may be significantly higher.

We all remember Everett Dirksen, an oil leader from Illinois who once said: "A million here and a million there, and pretty soon you are talking about real money." Well, the \$353 billion tax gap is certainly real money.

Most Americans would find that amount of money hard to visualize. I know I do. How much is \$353 billion? That is pretty hard to visualize. How high would a stack of \$100 bills—not \$1 bills, but \$100 bills—have to be to reach \$350 billion? The answer is astonishing: 334 miles high.

I have a stack here, a brick of \$100,000. It is not actually \$100,000. [Laughter.] The front end is \$100 bills and the back end is \$100 bills, but in the middle are \$1 bills. [Laughter.] But this represents \$100,000. That is what a stack of \$100,000 would look like.

In my home State, a stack of \$100,000 would stretch from Billings, MT to Missoula, MT—here is a map. This is Billings here—all the way to Missoula, MT. That is about 330 some miles. We have a big State in Montana. If this was stacked one by one right next to each other all the way, that is the distance it would take, a stack of not \$100, but of \$100,000 bills, this stack representing 100,000 bills.

Now, that is the same distance from Hartford, CT to Washington, DC. That is about 350 miles. Or a stack from Los Angeles, CA to San Jose, CA. That is about 342 miles. Or from Jackson, MS to Atlanta, GA. That is about 380 miles.

Now, what does that mean for the average school teacher in my State of Montana, or the waitress in Iowa, or the farmer in North Dakota? What does that mean? It means you are paying more taxes on your wages than you should because you are not collecting the taxes from those who are evading the law. It means that the value of the dollar in your pocket is actually less because our Nation has been piling up debts and owes more money to foreign governments.

It means we could reduce the deficit by three-fourths. Now, just look at this. This is pretty instructive, I think. The green bar on the left is essentially the tax gap, \$353 billion. That is based on the old data of several years ago. If we had current data, my guess is it would be higher.

But that would pay for roughly three-fourths of the deficit right there, just the tax gap, if people paid the money that they should pay, and if Uncle Sam collected the money that is legally owed.

It could pay for a large portion of annual Social Security outlays. Again, about two-thirds to three-fourths of annual Social Security outlays. It could pay for all of the annual Medicare outlays. All of it. The tax gap covers all of the annual Medicare outlays. It is incredible. It is astounding, when you stop to think about it. It would pay for it all.

We have a Social Security insolvency problem facing the Nation. Just think, on an equivalent basis, how much of Social Security solvency could be solved if general revenues were fully collected and used to fund the Social Security trust fund, as opposed to payroll taxes. Perhaps it could lower the payroll tax. Who knows? But the point is, this is not just some academic concept. This is real money. This is real.

I hope that finally, after all the talking we have had about the tax gap over the years, that we can finally do something about it. I think the American people, if they stopped and thought about it a little more, would be pretty outraged. It is our responsibility to actually do something about it.

Now, I am not going to speak at great length. We have great witnesses here. But if we fail to collect the taxes that are lawfully owed, what is the additional effect? It undermines people's confidence, not only in the tax system, but in our government. It just undermines confidence.

People want to pay their taxes. Most people see it as their obligation, their civic obligation, their American obligation to pay their taxes. But they also suspect that a lot of other people are not paying their taxes.

When they learn the amount that people are not paying, it really starts to undermine people's confidence in the tax system, in the government, and they are going to begin to think, well, gee, why should I pay? Others are not paying; why should I?

In addition, it starts to undermine our standard of living. It automatically undermines Americans' standard of living when taxes that are legally owed are not collected. Again, it is worth repeating, this is not about raising taxes. It is simply about making sure that what is owed is paid. That is all this is about.

There is another part to this, and that is uncollected payroll taxes, employment taxes. The annual tax gap for the under-reporting of payroll taxes is estimated at about \$71 billion. That is on top of the \$353 billion.

About \$71 billion there is under-reported. About \$60 billion of this is for under-reported Social Security employment taxes. So, we can eliminate one-fourth or one-half of the Social Security tax gap if we could collect payroll taxes that are legally owed.

I appreciate the witnesses we have here. I do hope that this is the beginning of the end of the gap. We have talked about it a lot. Let us start doing something about it. Let us really start doing something about it.

I think we are only going to be able to do something about it if we give ourselves deadlines, as metrics, the amount by which we are going to reduce that gap over what period of time so we can report progress or report lack of progress to see where we are and give some actual accountability to the American people.

It is an outrage. This is absolutely outrageous. So I hope, Mr. Chairman, we finally do begin to get this solved. Thank you very much.

Senator CONRAD. Mr. Chairman?

The CHAIRMAN. Yes?

Senator CONRAD. Might members of the committee have a chance to study the display? [Laughter.]

I have never had my hands on \$100,000.

Senator BAUCUS. Well, as a former tax commissioner of North Dakota—

The CHAIRMAN. I guess, better yet, those of us from Iowa or North Dakota do not even know there are denominations that big. [Laughter.]

I just wanted to remind people, and I know you know this because you helped us accomplish it, but we did have about \$24 billion worth of effort of tax shelter closing in the FSC-ETI bill last year.

Senator BAUCUS. That is right.

The CHAIRMAN. Now we have an opportunity to turn to the seventh Comptroller General of the United States, David Walker. Since assuming his position November 9, 1998, he has been effectively doing what Comptroller Generals are supposed to be doing, improving the performance of the Federal Government. We all benefit from that, but we in Congress see his agency as one of the main helping hands that we have to do our oversight work.

General Walker?

STATEMENT OF HON. DAVID WALKER, COMPTROLLER GENERAL, U.S. GOVERNMENT ACCOUNTABILITY OFFICE, WASHINGTON, DC

Mr. WALKER. Mr. Chairman, Senator Baucus, Senator Conrad, it is a pleasure to be before the Senate Finance Committee to talk about this important topic of the annual tax gap.

With your permission, Mr. Chairman, I would respectfully request that my entire statement be included in the record so I can move to summarize.

The CHAIRMAN. Yes. Let me say, so everybody else who is a witness will not have to go through the same process, your statement will just be automatically included in the record, and we would like to have you summarize according to the time that the staff has warned you about. Thank you very much.

Go ahead.

[The prepared statement of Mr. Walker appears in the appendix.]

Mr. WALKER. Thank you, Mr. Chairman. I will summarize using three slides that are also in my testimony.

Let me say at the outset, with your comment, Mr. Chairman, about this being April 14. For the record, I will file a timely extension tomorrow. I have paid AMT at least once already, so I share your pain with regard to that issue, although my AMT number was a little bit higher than your number.

The CHAIRMAN. You are not a farmer, that is why. [Laughter.]

Mr. WALKER. I am a public servant, like you are.

But let me also say for the record, while it may be somewhat masochistic and it is not intended this way, I actually fill out my

return by hand every year just to be able to go through the exercise and experience the complexity, the confusion, and the type of pains people go through, although I will file electronically this year, for a number of different reasons.

I appreciate this opportunity to be before you. I think this is a very important topic. What I would like to do is start with the first slide which is in my testimony, to note that, as has been mentioned, it is important that we focus on this actual annual tax gap, because it is the difference between what taxpayers timely and accurately pay in taxes and what they should pay under the law.

Reducing this tax gap can help the Nation cope with its large and growing fiscal challenges. I think it is important to note, as Senator Baucus said, this is very important given the size of our large and growing deficit. It is very important to note, as shown in the far right-hand bottom corner, that the total estimate is \$312 to \$353 billion.

Senator BAUCUS. Excuse me, General.

Mr. WALKER. Yes, sir?

Senator BAUCUS. Frankly, I cannot read that. It is too far away. Do you know where it is in your testimony?

Mr. WALKER. Yes, sir. I do know where it is in my testimony. It is page 21, Senator.

Senator BAUCUS. Twenty-one.

Mr. WALKER. Page 21. Thank you so much.

But as Senator Baucus mentioned, the unified budget deficit last year was \$412 billion, the on-budget deficit was \$567 billion, and so this is a big chunk of that money.

The IRS estimates that through its own enforcement efforts that \$312 to \$353 billion will actually be about \$257 to \$298 billion, but it is still a large and unacceptable number.

I think we must recognize that, in today's times of large current and projected deficits, that people have a patriotic duty to pay their taxes. If they do not pay their taxes, they, in effect, among other things, are not only taking from their country, they are taking from their children and their grandchildren. It is very clear that, based upon the current fiscal path that we are on, that a failure to pay your tax dollar today means your children and grandchildren are going to pay higher taxes in the future.

So, it is important that we focus on the fact that there is a patriotic duty and that you have to put a face on the failure of individuals to properly pay their taxes.

In this regard, as you know, this tax gap estimate is based upon 2001 data and it did not represent an update of all the different forms of taxation. It was primarily individual taxation and related types of activities. Now, that is the biggest chunk of the money.

This committee has been concerned with tax-exempt entities. There have been concerns with regard to corporations that are not subchapter S corporations. So, clearly, more efforts need to be taken in order to update data with regard to other aspects of non-compliance.

But I think it was prudent and appropriate that the IRS start off with the biggest number, which is the individual taxation, although it did deal with somewhat dated information. This estimate

is up from the last time the IRS undertook this effort for tax year 1988.

I think it is important to put this in context. Next, please. Each of you Senators should have received a copy of the report that was published on February 14, 2005 by GAO entitled, "Twenty-first Century Challenges: Reexamining the Base of the Federal Government." (<http://www.gao.gov/new.items/d05325sp.pdf>)

Senator BAUCUS. Mr. General, again, we are looking for where it is in your testimony.

Mr. WALKER. This, you do not have. It is just in my hands, Senator. I am just trying to bring it to your attention. Your staff has this. If I can get you an additional copy, I will be happy to do that.

It is really important, in the little, spare time that you have, which is basically zero, that you take an opportunity to look at this, because it paints a very clear and compelling picture about where we are and where we are headed from a fiscal standpoint.

This is one of the charts in my testimony. This chart is on page 8 of my testimony. There are two simulations shown in my testimony to show where we are and where we are headed with regard to our fiscal future. This is one of them. This is not a pretty picture.

The fact of the matter is that, based upon CBO's long-range economic growth assumptions, if you assume that discretionary spending grows by the rate of the economy, if you assume that the Social Security and Medicare trustees' best estimates of cost for those programs are accurate, and if you assume that all of the tax cuts are extended and made permanent, this is our fiscal future. It means that the Federal Government could be doing little more than paying interest on the massive Federal debt around 2040.

Social Security, frankly, is a small part of our challenge. It is less than 10 percent of our fiscal imbalance. We could be facing much greater problems, all the more reason why this committee is holding a hearing on the tax gap. Because if we can make progress on the tax gap, it can make a major contribution to try to deal with our imbalance.

But as Chairman Grassley properly said, we should have zero tolerance for a tax gap. But it will never be zero. Just like fraud, waste, abuse, and mismanagement in the Federal Government.

We are constantly trying to fight, along with the Inspectors General and others, including the Congress, fraud, waste, abuse, and mismanagement in the Federal Government. It will never be zero, so therefore we need to end up using other tools in order to accomplish the overall objective.

Clearly, I think it is important to note the next one, that the IRS has started to allocate additional resources to tax enforcement-related activities. This chart on page 14 of my testimony shows that, within the last several years, the IRS has started to increase its examination rate for individual income taxes.

As you know, Senators, it is important to provide taxpayer assistance in order to help people who want to comply with the law be able to effectively comply with the law. The IRS has done a lot over the last several years to try to improve assistance and responsiveness to taxpayers.

At the same point in time, one has to recognize that not everybody is intent on voluntarily complying and that some individuals, even if they do file a tax return, do not necessarily include all their income or do not necessarily properly state all their deductions, et cetera.

As a result, it is very, very important to have a strong, effective, and credible enforcement presence in order to employ the carrot-and-stick approach. The carrot is, we are going to help you comply. The stick is, if you do not comply, there could be significant adverse consequences. So, it is important that continued progress be able to be made here through a variety of different mechanisms.

But as the Chairman and the Ranking Member mentioned, we are going to have to attack this on multiple fronts using multiple strategies over a sustained period of time in order to be able to be successful. That is going to include not just beefing up enforcement, it is going to include simplifying the tax code.

It is also going to potentially include additional information returns and additional withholding mechanisms with regard to certain segments of the population where the tax compliance rate is lower.

Finally, I might note, as has been mentioned by Senator Baucus, it is important that we have some metrics here. It is important that we have goals, objectives and strategies with appropriate responsibility and accountability mechanisms as to what can be done to try to close this tax gap.

I would respectfully suggest, Senators, that one of the other things that you may want to consider is, I understand that, under current law, that individual Revenue agents cannot be held accountable for particular goals with regard to tax collections.

But I would respectfully suggest that one of the things you may want to consider, as part of a comprehensive plan by the Agency, is whether or not there could be a balanced scorecard approach where at least Senior Executive Service members who are not dealing directly with the taxpayers might be able to be held accountable for providing quality service within their units, as well as trying to make progress with regard to key enforcement goals.

Congress has enacted a number of pieces of important legislation within the past few years to try to deal with taxpayer abuse, including the creation of the Taxpayers' Advocate Office. There are certain checks and balances that exist in the system now that I think can help to minimize the possibility of taxpayer abuse.

At the same time, becoming a high-performing organization and making progress on goals require that there be some transparency and accountability for achieving real results, while having checks and balances to make sure that there are not abuses in doing so.

So, Senators, thank you very much for your time. I would be happy to answer any questions that you may have.

The CHAIRMAN. All right. We will take 5-minute rounds. The members who have come are in the order of: Grassley, Baucus, Thomas, and Conrad.

I am interested, General Walker, in your comments about dealing with the tax gap, the part that the taxpayers' service might play in that. I have always been of the view that most taxpayers

want to comply, and if they can receive good information, will act on it and comply.

Your views, then, on the importance of providing services, specifically what kind of services that can address the tax gap. In addition, while enforcement is easier to measure, how can we best measure the impact of improved services? To what extent do you find the IRS doing that?

Mr. WALKER. Well, clearly, Mr. Chairman, the IRS has placed a considerable amount of time and attention and allocated additional resources to increase taxpayer services in a variety of different ways, including having the toll-free number capabilities where individuals can call in and ask questions.

I myself, quite frankly, have taken advantage of that on more than one occasion. While sometimes the waits can be longer than you would like, I have found in using these services over the last several years, that the quality and the responsiveness has improved. Some of the work that we have done at GAO was focused on trying to make sure that that continues to occur.

So, yes, I believe that that is an important element and that we need to try to use survey mechanisms, et cetera, to try to ascertain whether, and to what extent, that is making a difference based upon the persons who are being aided.

At the same point in time, I think it is fair to say that our tax laws are incredibly complex. There is absolutely no question that there needs to be simplification of our tax laws.

I am a certified public accountant and I do my own taxes, and I can get it done. However, it is hard to imagine an individual who in good faith is trying to comply facing this Herculean task, if you are filing anything other than a short form. It is unbelievable. So, I think simplification has to be part of it, too.

The CHAIRMAN. I would focus on the point that you make in your testimony where you state that closing the tax gap, in some cases, may not be feasible or desirable. Expand on that point. Because, as I mentioned in my opening statement, too many members think the tax gap is something that is just out there, ripe fruit to pluck. I think we all understand it is complicated, but would you respond to that?

Mr. WALKER. Yes, Mr. Chairman. You are exactly right. It is kind of like the issue that I touched on in my opening statement. There are many people who believe that we can eliminate fraud, waste, abuse, and mismanagement, and there are many people who believe that, if all we did was have zero fraud, waste, abuse, and mismanagement in the Federal Government, that would take care of our deficit problems and our long-range fiscal imbalances. It is just not feasible to do that.

The same thing applies with regard to the tax gap. It would be overly intrusive with regard to many Americans if we were to require the detailed amount of information that would be reported to the IRS. We have to balance enforcement with privacy and other types of considerations.

I do, however, believe that additional progress can be made, but I think a lot of that progress is going to require selected additional information returns. For example, the cost basis associated with capital gains.

Right now, people have to report the amount of proceeds, but you do not know what the cost basis is. Obviously, the gain or loss is based upon the difference, and therefore that is an issue.

In addition, with regard to income that is received by individuals through pass-through vehicles such as partnerships, such as subchapter S corporations, whether or not there is a way, in addition to the information that is being provided to the IRS, to have some type of withholding for individuals that are receiving income on a recurring basis through those entities. I, myself, used to be a partner with a global firm that operated in partnership form. I would end up filing my estimated on a quarterly basis.

I think there are many situations where there is a pass-through vehicle where you might be able to have an entity, a corporate entity or a partnership, be able to do some things on behalf of those partners or subchapter S shareholders that could help in this regard.

The CHAIRMAN. My last question is, in regard to your study, it is my understanding that you are looking into various tax reform proposals. I would ask you to talk about tax reform and how it may or may not help with the tax gap.

Mr. WALKER. Mr. Chairman, as I mentioned, I think tax reform, clearly, has to be part of a comprehensive, long-term strategy to maximize compliance and to minimize the tax gap. We have a tax code today that is way overly complex.

When I fill out my own tax return, I am left with the feeling, not only that it is overly complex, but that it is, to a certain extent, a bait-and-switch system. I sit and I fill it out. I claim all of my income and then certain of my deductions are limited and my exemptions get phased out. Then all of a sudden, after I fill out all of this, then oops, there is this surtax called AMT that comes up.

So, clearly, I think we need to try to do what we can to streamline and simplify it. That is easier said than done, but I think it has to be part of our longer-term strategy.

The CHAIRMAN. Senator Baucus?

Senator BAUCUS. Thank you, Mr. Chairman.

General Walker, where do you think we should begin to simplify? I think you are right. We all know intuitively, the code is way, way too complex. So some of the questions that come to my mind are, how do we get at this?

Targeting our efforts here, there is an opportunity for the President's Commission on Tax Reform that is meeting right now to tackle simplification. I am just curious about what advice you might have that we could give them.

Mr. WALKER. Well, Senator Baucus, I will say that the Chairman and Ranking Member of the Tax Reform group are your former colleagues, and also that I know them as well. I have had conversations with them, and we have also let them know that we would be more than happy to share GAO's work over the years in this area.

I think you have to look at tax incentives and what can be done to re-look at a lot of our existing tax incentives, whether they be exclusions or whether they be deductions.

Candidly, one of the things that is noted in this booklet is that, when you consider the total value of tax incentives each year,

many years they exceed the total cost of discretionary spending, yet they are off the radar screen. You do not see them.

We also have to take a look at not just how they might contribute to simplification, but also, what type of results are these tax incentives having? For example, the health care exclusion. Is that helping to control health care costs or is it exacerbating the problem?

So, I would be happy to provide more information, if you would like. We are sharing our knowledge and experience with the commission that the President has appointed, and I look forward to seeing what they come up with.

Senator BAUCUS. I appreciate that. I suppose one example would be all the various education accounts. There are lots of different credits and deductions for education. Frankly, I cannot keep them all straight, there are so many of them.

The same is true in personal savings. There are a lot of personal savings vehicles. To me, that is one area that can be simplified, too. Let us get rid of a few of them, maybe package it in a way that is more simple.

Mr. WALKER. With regard to those savings vehicles, Senator, as you know, not only are there a lot of them, but in many cases you do not have to preserve the income to retirement in order to be able to use those vehicles and benefit from them.

Senator BAUCUS. That is true.

If you could address, too, as near as you can tell, the degree to which we have to give resources to the IRS so they can figure out what the problem is. We hear lots of complaints that the computer system is antiquated. They are making efforts to try to address that.

But I am a bit disturbed that the latest data that we have from the IRS—I think it is 2001 data—is for under-reporting on the individual side. We do not yet know what the tax gap is on the corporate side, or other pass-throughs. We just know under-reporting so far on individual income taxes, and that is just 2001. Heck, this is 2005 already.

I would think that the Service would be able to tell us. I am surprised at how long it has taken the Service to try to figure out the answer to this question. If you could just comment a little on that, please.

Mr. WALKER. Senator Baucus, you are correct that they use 2001 data in order to estimate the individual under-reporting gap. But as you also understand, it took them a considerable amount of time to do it. So, therefore, they have more timely data available to them now, but clearly that is something that you may want to ask the Commissioner about: what can be done to try to expedite the availability of data? We have this problem in many areas of government, including, most acutely, I might add—no pun intended—in the health care area.

With regard to resources, there is no question that there is a resource issue here. As you know, the President has proposed additional resources targeted for enforcement in his budget proposal for the Congress's consideration in that regard.

There is no question also that our study shows—and our work over the years, as well as the IRS's—that there can be a good re-

turn on investment for targeted investment in enforcement activities, although I think we have to keep in mind that in the first year there is not likely to be much of a return on investment because you are hiring the people in. You have to train them and equip them. You have to do all these things where you are incurring the costs, but you are not necessarily going to get the benefit in year one.

I believe, over time, there has been a return of about 4:1 with regard to IRS's total budget, but there is a limit as to how far you can carry that concept. We are doing work for the Congress, based upon existing law, to monitor more closely the efforts that the IRS is doing in the area of information technology upgrades. In fact, before additional funds flow to the IRS, GAO is required to provide certain information to the Congress as a pre-condition.

So, clearly, some additional resources are necessary, but my view is, as in all cases—even for GAO—to the extent that somebody wants incremental resources, there should be a business case. What do you want the resources for? What type of return on investment are we going to get? What are the metrics that we can use, meaning the Congress can use, to ascertain whether or not people are delivering on the promises over a period of time?

Senator BAUCUS. Well, my time has expired. But, for the record, if you could, or maybe at some point, tell this committee, metrics that you might suggest. You have been in the business a long time. Your agency is well geared for this. But if you could give us some ideas of what the metrics should be, that would be a real service.

Mr. WALKER. I would be happy to, Senator.

[The information appears in the appendix on p. 396.]

Senator BAUCUS. Thank you. I might add, too, I think you are doing a great service, General. I mean, I think of people I know in the government who are really trying hard, a lot of value added in terms of service, and you are one of them. I want to thank you for your service.

Mr. WALKER. Well, thank you, Senator. I have 3,214 people backing me up, and they are great people, too. Thank you, Senator.

The CHAIRMAN. Thank you.

Senator Thomas?

Senator THOMAS. Thank you, Mr. Chairman.

Obviously, we are all aware of a number of problems here. By the way, there is a package of savings arrangements out there now that we introduced about a month ago, in a roll-out with Secretary Snow and others, to simplify these savings vehicles.

How would you, in a fairly brief response, see the role of the Comptroller in terms of this issue?

Mr. WALKER. The Comptroller General, myself?

Senator THOMAS. Yes. And your agency. You have 3,000 people and we have all these problems, so what are you doing?

Mr. WALKER. Well, Senator, that is a good question. It is a full-time job, trying to maximize the performance and assure the accountability of the Federal Government. Over 90 percent of our resources are geared towards working on issues that the Congress either instructs us to do or asks us to do.

In fact, we do quite a bit of work for this committee, the Senate Finance Committee, with the areas under its jurisdiction, not only the tax area, but also health care and other issues.

What is important is, we measure success by the results that are achieved based upon our work. Take last year, as an example. We issued over 1,000 reports and recommendations on a variety of issues dealing with the Federal Government. Eighty-three percent of our recommendations were adopted. The result of adopting those recommendations was \$44 billion in financial benefits—namely either savings or money freed up for re-deployment to higher priority. That is a \$95 return for every dollar invested.

We do three kinds of work: oversight work, insight work, and foresight work. Oversight is the money being expended for the intended purpose of compliance with the laws and regulations. That is most of our work.

Insight work. What is working and what is not working with regard to policies and programs?

Foresight work. What are some of the trends and challenges facing the country and the Congress, and how can we help you get facts to make more timely and informed judgments? That is what this book is about.

Senator THOMAS. Yes.

Mr. WALKER. So the answer is, we can do work in all three of those areas geared towards trying to help improve performance, assure accountability, and to close the fiscal gap over time.

Senator THOMAS. Well, that is great. I know it is a tough job. But we are here looking at numbers back in 2000, where more money is lost than you have talked about saving in these 4 years. Is it that you do not know what to do? I mean, do you not know how to solve the issue? You do not, or we do not? Is it that you do not have the mechanism to do it? Why has there not been a move here on \$300 billion a year?

Mr. WALKER. In fairness, Senator, I think what is important is, we have had areas of the IRS dealing with enforcement and dealing with these issues on our high-risk list, which, as you know, is published every 2 years, for a number of years.

As you know, we work for the Congress. We are auditors, investigators, evaluators, attorneys, et cetera. The primary responsibility for administering the tax laws and for closing the tax gap, really, is with the executive branch. The executive branch is responsible for managing the tax administration program.

Senator THOMAS. But you are a part of it.

Mr. WALKER. We are not. No, no, no. We work for the Congress. We are in the legislative branch. We are the third largest agency in the legislative branch.

Our job is to work with the Congress to try to help you exercise your oversight responsibilities, your authorization responsibilities, and your appropriations responsibilities. So what we try to do is do work to point out to you and the executive branch agencies areas for improvement and how to move forward.

Senator THOMAS. And the executive branch.

Mr. WALKER. Correct.

Senator THOMAS. But certainly there is some coordination between you and the executive branch, or if there is not, there certainly ought to be.

Mr. WALKER. There is, absolutely.

Senator THOMAS. Yes.

Mr. WALKER. In fact, the President's Management Agenda, which I am sure you are familiar with, is based primarily on GAO's high-risk list. Commissioner Everson, who was Deputy Director of OMB when that was created, directly contributed to its creation. I think he could tell you how much interaction we have with the IRS in order to try to help them see the way forward.

Senator THOMAS. Well, I want to be clear, I am not trying to be critical. I am trying to say, where is the problem? Is it a matter of not having the ideas yet as to what to do, or is it a problem of knowing that there ought to be some things done but we are not able to do them? Maybe it is all legislative. If it is legislative, then you ought to be giving us specific advice on what we ought to be doing.

Mr. WALKER. Senator, there are several specific suggestions that we have in our testimony. I think it is a combination. I think, number one, there are additional actions that need to be taken by the Internal Revenue Service that do not require legislation.

Number two, there are some resource needs that the Congress is going to have to decide on. Number three, I think you may well have to do some things that are going to require legislation.

For example, to the extent that you are going to allow them to use metrics to try to be able to balance not only service, but results and enforcement, you may have to re-look at some of the restrictions that are currently placed on the IRS on the ability to consider enforcement goals for senior executives for their evaluations.

Obviously, to the extent that there is tax simplification, that is something that the Congress is going to have to do. That is not something the IRS can do. So, we are going to have to act on multiple fronts over an extended period of time, and I would be more than happy to meet with you, Senator, if you want to talk in more detail about it.

Senator THOMAS. All right. Thank you very much.

Mr. WALKER. Thank you, Senator.

The CHAIRMAN. Senator Conrad?

Senator CONRAD. Thank you, Mr. Chairman. I thank the Chairman and the Ranking Member for holding this hearing. I think this is very important.

As somebody who has a budget responsibility for our colleagues, I have long been persuaded that the tax gap is one of the opportunities to close the deficit without cutting spending, without raising taxes. I think this is an opportunity for us to make real progress on the deficit.

Obviously, we also have to restrain spending. We have also got to find other ways to close this tremendous gap that we have, a budget deficit that is advertised at \$400 billion. But really what is being added to the debt is not \$400 billion.

I think a lot of people see the deficit and say, it is \$400 billion, that is what is being added to the debt. No. What is being added to the debt is closer to \$600 billion. The difference is the money

that is being taken from various trust funds that have to be repaid and that do not get included in the calculation of the deficit.

So, turning to the tax gap, this estimate of \$312 to \$353 billion, which is an initial re-estimate, is still leaving out lots of things. As I understand it, this is still based on the corporate side on data from 1988, updated to 2001.

Based on my contacts with the accounting community, they believe the environment has changed substantially in that period and that, in fact, the tax gap in the corporate area is probably much larger than these estimates.

In addition, as I understand it, this does not include illegal activity. This is what is owed by people not being paid. Although I see some indication that this includes over-stated deductions or credits, tax shelter investors, skimmers, moonlighters. I am not sure what "skimmers" refers to. I would be interested to hear from the Commissioner what all these terms relate to.

I heard on Tuesday of this week a former Commissioner of the IRS, Donald Alexander, estimated the tax gap is more likely in the \$400 billion range because current estimates do not fully account for non-filers, the underground economy, and certain other illegal activity.

My own belief is, that is probably a greater likelihood. I think the greater likelihood is that this estimate understates the tax gap. As we get more refined data, we will find it is even larger, which makes the imperative of moving forward even greater.

With that, Mr. Comptroller General, I want to thank you for the energy and effort you have put into alerting the American people of the fiscal imbalances facing the country, not only in the immediate term, but in the longer term, the demographic tsunami that is coming at us, a doubling of the people eligible for Social Security and Medicare combined with our budget deficits, combined with our trade deficits that mean we as a Nation are borrowing more and more money, not only from ourselves, but borrowing it from abroad as well, and that makes us increasingly vulnerable.

I want to salute you for really taking a leadership role. It is not your responsibility to close the tax gap. Your responsibility is to alert us and to alert the Nation about the nature of the tax gap, and to make recommendations on how we can take action to close it. So, I very much appreciate what you are doing in that regard.

Let me ask you this. I have become more and more convinced as I look at this that we will never make dramatic progress in closing the tax gap absent serious systemic tax reform. Can you give us some idea—you have spent hundreds of hours on this subject—what your conclusions are with respect to the need for tax reform as a means of making substantial progress?

Mr. WALKER. I think one of the questions you are going to have to deal with is how to streamline and simplify the tax code as it relates to individual income taxes—I will start off with that—to where you may end up having a flatter—not a flat—income tax, but also less tax preferences.

I think, also, you are going to have to consider, in time, given the change in the nature of the economy, given the change in the distribution of wealth and income in this country, at some point in

time enacting some consumption-based taxes, while dealing with the regressivity issue.

The fact of the matter is, the world has changed dramatically since 1988, especially on the corporate side. We are truly in a global economy. We are competing on a global basis. We are not an island. We may be the world's only super-power, but we cannot go it alone, and there are other countries coming up.

So the fact is, I think we are going to have to look outside the box, not just try to tinker around the edges, but maybe reconsider on what basis we are taxing and what we are giving preferences to at the same point in time.

Senator CONRAD. I notice my time has expired. Thank you, Mr. Chairman.

The CHAIRMAN. Now, Senator Crapo. Then after Senator Crapo, Senator Lincoln.

Senator CRAPO. Thank you very much, Mr. Chairman.

Mr. Walker, I, too, appreciate you coming here and the important work that you do.

I was interested in noting in your materials that the largest portion of the tax gap is in the area of individual income tax returns. In fact, according to the chart that I saw, somewhere between \$198 and \$234 billion worth of the gap is attributable to personal income tax returns.

In that context, have you had a chance to read the letter that was put out yesterday by the President's Advisory Panel on Tax Reform?

Mr. WALKER. No, Senator, I have not. But I will do it when I get back.

Senator CRAPO. All right. I will just summarize one portion of it to you, because it was interesting to me. They came out with six themes that they are going to use to guide their further deliberations. Throughout it was a concern that has been raised about the complexity of the tax code.

It is interesting that you just commented on that in your response to the previous question. One of their points was that the complexity of our code breeds a perception of unfairness and creates opportunities for manipulation of the rules to reduce tax.

The profound lack of transparency that they noted means that individuals and businesses cannot easily understand their own tax obligations or be confident that their neighbors or competitors are paying their fair share.

I recall back, oh, it has been 8 or 9 years ago now, I think, that one of the magazines in this country created a typical situation for a family of four, I think, and sent it out to a number of different tax preparing groups, like accountants, or whatever it may be, and asked them to prepare the tax return for this situation they had created.

And I do not remember the number they sent it out to, but whatever it was, they got that number of answers back. From professionals, they got different answers to the same set of facts under the tax code as to what the tax liability for this family would be.

With all of this kind of thing in mind, the question I have, coming back to the fact that you have identified by far the largest part of the problem being the individual income tax return arena, have

there been any studies done to demonstrate a relationship between the increasing complexity of the tax code and the increasing size of the tax gap?

Mr. WALKER. I am not aware of any that are directly focused on that, Senator. But you also may want to ask the Commissioner as well. He might be aware of some.

Senator CRAPO. We will do that. It just seems to me that one of the big problems that we face is the fact of the complexity. And I have noted previously, if we could send out a basic set of tax information to six different experts, or whatever the number was, and get six different answers back, then how can the Internal Revenue Service claim that they know the right answer when they audit a tax return?

Now, obviously they get to say what the right answer is, which is another part of the unfairness perceived by the American public. But the fact is, here, in addition to the fairness issues that we are addressing, it seems to me that one of the things that we could possibly do to improve the tax code dramatically in a number of ways, which would also address the tax gap, is to reduce the complexity. Could you comment on that?

Mr. WALKER. No doubt about that. But as you can see, Senator, with regard to the summary of the results from the latest estimate, the biggest problem is believed to be with under-reporting of income, where individuals, whether they be individuals, subchapter S corporation shareholders, partners or whatever, and whether it be due to sales of stock or other types of investments, or whether it be through interest income or other things, where income is not being reported.

I think there is a lot that has been done over the last few years to try to enhance reporting to the IRS so they can do matching. In fact, they have done a lot on that. I have seen and experienced some of that myself.

But I do believe, as I touched on before, if you really want to get at this over the longer term, it is more than enforcement. It is also having additional transparency, potential additional withholding, and simplification so that people who, in good faith, want to comply, can comply.

Senator CRAPO. When you talk about under-reporting, which I did note was the lion's share of the issue with regard to individual tax returns, I assumed when I read that that there were ways to under-report because of the complexity of the code. Is that correct?

Mr. WALKER. You may want to ask the Commissioner, but I believe a lot of that has to do with not as much complexity as it does with the fact that there is income that is being earned that has not been reported to the IRS, and the IRS does not have information where it can match what the individual did as compared to what they should have reported.

Senator CRAPO. In other words, just blatant refusal to report transactions.

Mr. WALKER. Part of that number is represented by that. I think the Commissioner could probably tell you more.

Senator CRAPO. All right. Thank you. Thank you very much.

The CHAIRMAN. Senator Lincoln, then Senator Wyden.

Senator LINCOLN. Thank you, Mr. Chairman. Thank you for bringing us together on such an important issue.

I am sorry I was late. I noticed in my office that there was a lot of fun being had down here, so I thought I had better come down here and check out what you guys were doing. A lot of laughter going on.

The CHAIRMAN. Well, we try to earn our money, but we will be corrected, if not, by you.

Senator LINCOLN. All right.

Mr. WALKER. The hundred thousand dollar stack may be gone now, Senator. I am not sure. [Laughter.]

Senator LINCOLN. Well, thank you, too, Mr. Walker, for being here. I would like to echo the sentiments from Senator Conrad about how much we appreciate this.

We realize that we have a responsibility here to make the necessary corrections and changes, simplifications, as you have mentioned, and we appreciate the way in which you have provided us the information in a good, sound way to be able to make those decisions.

I do think that the simplification that you have echoed is very important. Senator Hatch and I have worked hard. Having recognized that there were multiple different definitions of a child was one of the very first steps, I guess, that we began to take up last year, which was very helpful.

Just a couple of questions. I think one of the reasons that this issue has become even more important has been the record deficits, the historic deficits, that we are seeing in our Nation right now and the need for us to look for places of how we can correct that.

I guess a very simple question would be if you think we are living beyond our means. Even if we collected all of the taxes that were owed, would we still be living beyond our means?

Mr. WALKER. Yes. We are on an imprudent and unsustainable fiscal path. Last year, we had a unified deficit of \$412 billion and an on-budget deficit of \$567 billion. Of the \$412 billion number, less than 25 percent related to Iraq, Afghanistan, and incremental homeland security costs, and we had the strongest economic growth of any industrialized nation. We are not on a prudent, nor are we on a sustainable, path.

Senator LINCOLN. Well, I agree with you on that. I think that that is why it is ever more responsible for us to look at this as an issue that we should be able to deal with and improve upon.

One of the things that I have become concerned about, if we are talking about dealing with the tax gap by cutting back taxpayers' assistance, which is what is apparent in this budget, I suppose—the budget request included a decrease in funding of the taxpayer services to offset some of the increase in enforcement—what does that do? I mean, I just put my taxes in the mail this morning. They were enormously complicated, and I am probably the least complicated of the 100 members up here.

Mr. WALKER. Well, it depends on how you cut back on it. I imagine that might be a question you may want to ask the Commissioner. Basically, it depends upon how those funds are being expended.

Let me give an example I can relate to when I became Comptroller General in November of 1998. After studying our situation, I ended up closing 5 of 16 field offices because I did not believe we could justify maintaining the additional infrastructure costs associated with those.

We took a number of other actions that in some cases reduced head count, and yet our results actually increased. Even though we ended up closing certain offices, we increased automation, and we ended up doing a number of other things designed to enhance our overall productivity and effectiveness.

So, I think the key is not just whether or not the money is coming out of that area or whether or not certain facilities may be closed, but what are the likely implications of those actions given other possible compensating actions? And there can be offsets because of process improvements, because of technological enhancements, and other areas.

Senator LINCOLN. Well, the technological advancements, to a certain degree, though, do they not require a great deal of assistance in coming up to speed?

Mr. WALKER. Yes, to the extent that you have technological enhancements, there is absolutely no question that there is a training element of that. You end up having to train people on these new technologies. They have to become familiar with these new technologies.

In the end, you have to have a human being there available to be able to deal with people if the automated menus do not get the job done. As you know, there are a lot of automated menus when you call the IRS. Sometimes it takes you a while to get through them.

Senator LINCOLN. Well, I guess my concern has stemmed from, particularly in some of our more rural areas, some of the problems we have seen with EITC could really have been prevented, or we could correct them, if we were able to have better assistance early on in transferring or translating to a more technological solution. But it seems to go backwards. It seems to me that we get the technology without the assistance to be able to implement it, particularly in rural areas.

We have been trying to correct some of that, because there are those who really have seen some of the problems we have had with the ITC and have genuinely wanted to try to correct some of that but really have not been able to get the assistance out to particularly the smaller areas, the rural areas where we see a lot of those EITC problems and claims existing.

Mr. WALKER. Well, a couple of thoughts off the top of my head. We are becoming an increasingly wired society. More and more people are using the Internet, and if one has access to the Internet, irrespective of where you live, it is a universal communication mechanism.

What has the IRS done and what else can the IRS do to provide more information with regard to this and other areas of complexity up front before people file their tax returns? Then, second, what, if anything, might be able to be done to provide targeted information to individuals who are claiming EITC such that they have certain information to be able to consider in future filings?

Senator LINCOLN. Right. Progressivity.

The CHAIRMAN. Your time is up.

Senator Wyden, Senator Baucus has one more question. He has to leave the room just for a minute. Could he ask a question ahead of you?

Senator WYDEN. Of course.

Senator BAUCUS. I thank both of you very much. Just very briefly.

Mr. Walker, on page 22 of your report, it is basically pointed out that the IRS has only looked at certain data. Given its current research priorities, it will not begin another NRP—that is, another study—of individual returns before 2008, if at all, and would not complete such study until 2010.

It is my understanding that there is no effort to look at other sectors, corporate returns, excise tax returns, et cetera, by the IRS.

You go on to say that, “Although the costs and burdens of compliance measurement are legitimate concerns, we believe compliance studies to be good investments.”

Could you just elaborate on that basic point? It looks like this is not a comprehensive examination of data to determine whether or not there is compliance. There is a concern because of the cost of trying to determine whether there is compliance. As you point out, in some cases that is a good investment.

Mr. WALKER. Right.

Senator BAUCUS. Could you just comment on that a little bit, please?

Mr. WALKER. Well, Senator, as you know, the last time the IRS did the estimate for the individual side was 1988, and this new estimate is focused on the individual side and it is based on 2001 data.

We think it is important to update it more frequently than every 13 years. We need to have metrics. We need to understand how we are doing. In addition to that, we also need to make sure that we do not leave segments of the taxpayer population off the radar screen.

It is important that, periodically, we take a look at the corporate side, that we look at the other elements that have not been looked at, although it is fair to say, a vast majority, at least historically, of the estimated tax gap has been associated with individuals, although some of those could be partners in partnerships, or subchapter S shareholders operating in corporate form. So, we believe it is important to have a comprehensive plan to periodically update all aspects of this to develop the metrics.

I will also say this, that there is no question you need to streamline and simplify the code. There is also a need to stabilize the code, because one of the difficulties that the IRS will have is when the law keeps on changing, it makes it that much more difficult, not just for taxpayers to comply and those who assist to try to get the job done, but also to come up with apples to apples comparisons of how we are really doing on a trend line with regard to the tax gap, because it is a moving target, if you will.

So, we do believe there needs to be a plan that provides more frequent updates, and also a broader cross-section of the taxpayer reporting information.

Senator BAUCUS. Thank you very, very much. I thank my colleague.

The CHAIRMAN. Thank you.

Now, Senator Wyden?

Senator WYDEN. Thank you, Mr. Chairman.

Mr. Walker, let me commend you for all of the excellent work that you do for the Congress. Probably no one avails themselves more of your office than me, and I am very appreciative.

My concern, and the area I want to examine first with you, is I am not convinced that the IRS is looking at the right places. I am constantly being told, for example, that law-abiding citizens are being hassled and that opportunities to collect more revenue are being overlooked.

So my question to you is, based on what you know, do you think the IRS is looking at the right places?

Mr. WALKER. I think within the last several years the IRS has started to allocate additional resources to enforcement. It has focused those resources on the areas that historically have been a problem. The results of this new study are preliminary. There are more detailed results that will be forthcoming. I would hope and expect that the IRS would be informed by those results in determining how they are going to allocate their future resources. I do note that there are some aspects of the taxpayer universe that have not been updated as a result of this. For example, the corporate side. The world has changed dramatically on the corporate side since 1988.

At the same point in time, it is my understanding that while there is, I think, significant additional opportunity for abuse on the corporate side because of some of those changes, it is my understanding the IRS is allocating additional resources there as well.

This is something you may want to pursue with the Commissioner as to what degree of resource allocation and how that is being targeted. For example, transfer pricing, I know, is a huge issue in today's global economy.

Senator WYDEN. I intend to pursue this, not just today, but in the future. You all audit programs. You audit agencies. If you tell us at some point that the IRS is not looking at the right places, that is an argument for having you audit the auditors to make sure that the enforcement efforts really go to the right place.

Now, you said earlier that you did not think closing the entire tax gap was practical. But could you attach a figure on how much you think the tax gap could actually be closed? This is, I think, especially relevant given the deficit. So, take a crack, if you would, at trying to give us a number and your best and most realistic assessment of how much of the tax gap could be closed.

Mr. WALKER. As you know, Senator Wyden, GAO prides itself on having generally accepted methodologies, reasonable assumptions, and fact-based inputs in order to be able to come to those conclusions, so it is virtually impossible for me to give you a number.

I will tell you this: to a great extent it depends upon a variety of factors. It depends upon whether or not you take steps to streamline and simplify the code. It depends upon whether and to what extent the IRS is given authority to be able to receive additional information returns.

It depends upon whether and to what extent additional steps are taken to try to increase withholding opportunities for certain types of taxpayers. It depends upon whether and to what extent the Congress ends up allocating targeted resource enhancements for enforcement where a business case can be made, that they can be a good return on investment.

Ultimately, I think it depends upon whether or not the Congress considers alternative means of raising revenue, such as consumption-based taxes while dealing with the regressivity problem that could be associated with that. You have to do that. Most major industrialized countries have moved more towards a consumption tax base where you collect it differently.

Senator WYDEN. Let us say that is not done.

Mr. WALKER. All right.

Senator WYDEN. I would like to see some of that done.

Mr. WALKER. Sure.

Senator WYDEN. But if it is not done—and I will only ask once more and not persist—can you give us some sense of what you think might be realistic?

Mr. WALKER. You can raise tens of billions of dollars. How much you can raise depends upon a variety of factors, but there is no doubt in my mind that you can raise tens of billions of dollars.

Senator WYDEN. Well, I thank you. I thank you for your professionalism. I look forward to working closely with you.

Thank you, Mr. Chairman.

The CHAIRMAN. Yes. Thank you, General Walker.

Mr. WALKER. Thank you, Mr. Chairman. Thank you.

The CHAIRMAN. I would call our second panel, Mark Everson, Commissioner of IRS, the person that is right in the middle of estimating the size of the tax gap and currently doing a lot to address it, but telling us how we can do more; and Mr. George Yin, Staff Director, Joint Committee on Taxation, to discuss general principles as identified by the Joint Committee staff that should influence any new tax legislation when we seek to enhance compliance; Eileen O'Connor, Assistant Attorney General, Tax Division, Department of Justice, telling us of progress already made in bridging the tax gap, and particularly of tax-avoiding schemes that are thwarted as a result of the work of her agency; Treasury Inspector General of Tax Administration, Russell George, providing us additional information on the tax gap and possible solutions, telling us also how the IRS can protect taxpayers' rights and improve customer service, all a concern to us, but something that needs to be done as we look at the aggressive administration that it takes to close the tax gap; and finally, Nina Olson, with the title of National Taxpayer Advocate, who will discuss how both enforcement and high-quality customer service does increase compliance.

We will proceed in the way you were introduced. So, Mr. Everson?

**STATEMENT OF HON. MARK EVERSON, COMMISSIONER,
INTERNAL REVENUE SERVICE, WASHINGTON, DC**

Mr. EVERSON. Thank you, Mr. Chairman, Senator Crapo. I am pleased to be here. I want to start out by saying, we do recognize that it is not Christmas Eve, Senator, on April 14th.

In fact, I will just tell you one story. This morning I got up, and my dog, who usually gives me a pretty good welcoming—he is a pug—he just sort of ignored me. My wife said to me, “See? This time of year, nobody loves you.” [Laughter.]

I appreciate your continued interest in and support for our efforts to increase compliance with the tax laws. Simply put, the tax gap is the difference between the tax that taxpayers should pay and what they actually pay on a timely basis.

Our research confirms that the vast majority of Americans pay their taxes honestly and accurately, but the findings also show that, even after IRS enforcement efforts and late payments, the government is being short-changed by over a quarter trillion dollars each year because some pay less than their fair share. People who are not paying their taxes shift their burden to the rest of us.

In this time of budget deficits, a dollar not received by the government becomes debt, the burden of which will be felt by future generations. Moreover, as President Kennedy stated in 1961, large, continued avoidance of tax on the part of some has a steadily demoralizing effect on the compliance of others.

Our research shows the gross tax gap to be between \$312 billion and \$353 billion. The old tax gap estimate for 2001 was \$311 billion, a figure based on studies conducted in 1988 and earlier, so there has been what I would term a modest deterioration in tax compliance among individual taxpayers since the last study was conducted in 1988.

IRS enforcement actions, coupled with late payments, recover about \$55 billion of the total tax gap, leaving a net annual tax gap of between \$257 billion and \$298 billion.

Current data are preliminary, so our tax gap estimates are shown as ranges. As refinements are made to the analyses, some estimates may change. It is unlikely, but possible, that the final estimates of the total tax gap will fall outside the established range.

There are two views of the tax gap: by type of noncompliance—that is to say, non-filing, under-reporting, and under-payment—and by type of tax. The new research for 2001 addresses the under-reporting of income and self-employment taxes by individual taxpayers. It is based on audits of 46,000 individuals. The study did not address corporate compliance.

Preliminary findings include under-reporting noncompliance is the largest component of the tax gap. Preliminary estimates show under-reporting accounts for more than 80 percent of the total tax gap, with non-filing and under-payment at about 10 percent each.

Individual income tax is the single largest source of the annual tax gap, accounting for about two-thirds of the total. For individual under-reporting, more than 80 percent comes from under-stated income, not over-stated deductions.

Most of the under-stated income comes from business activities, not wages or investment income. Finally, compliance rates are highest where there is third party reporting or withholding. Preliminary findings show less than 1.5 percent of wages and salaries are misreported.

The next stage of our research will be to finish the data analysis and refine the tax gap data by late this year. The IRS will use the

data to update its statistical tools for selecting individual returns for audit.

An understanding of the tax gap and its components will allow the legislative and executive branches of government to make better decisions about tax policy and the allocation of resources for tax administration.

The study confirms two key points involving tax enforcement and simplification. The IRS needs to enforce the laws, so that when Americans pay their taxes they are confident that neighbors and business competitors are doing the same.

At the same time, this research underscores the President's call for tax reform. Complexity obscures understanding. Complexity in the tax code compromises both the service and enforcement missions of the IRS.

Those who try to follow the law but cannot understand their tax obligations may make inadvertent errors or ultimately throw up their hands and say, why bother? Meanwhile, individuals who seek to pay less than what they owe often hide behind the tax code's complexity in order to escape detection by the IRS and pay less.

Since 2001, we have taken a number of steps to bolster enforcement. These charts show you the story. We have increased total individual audits to more than 1 million; they were just over 600,000 4 years ago. We have also more than doubled high-income audits. We have brought up recommended criminal prosecutions. That is what we refer over to the Department of Justice.

Between fiscal year 2001 and 2004, the IRS increased its enforcement revenues from \$33.8 billion to \$43.1 billion. Enforcement revenues are the monies that result from IRS collection, audit, and document matching activities.

Enforcement revenues directly reduce the tax gap and the Nation's budget deficit. They exclude the positive impact on compliance that occurs when someone learns, in a casual conversation, that their neighbor has been audited and then thinks twice about fudging his or her own return.

The President has called for a nearly 8-percent increase for enforcement activities in the administration's 2006 IRS budget request. These investments will pay for themselves several times over and help reduce the tax gap. I thank the members of this committee for the efforts you have made to get more resources for the IRS. Please keep it up.

Finally, I would like to point out that our system of tax administration is fundamentally one of self-assessment and enjoys a high compliance rate. The IRS is moving aggressively to reduce the tax gap. With proper funding, over a number of years we will be able to close a significant portion of the gap. But no one should think we can totally eliminate the gap. That would take draconian measures and make the government too intrusive. We have to strike the right balance.

Thank you.

The CHAIRMAN. Thank you, Mr. Everson.

[The prepared statement of Mr. Everson appears in the appendix.]

The CHAIRMAN. Now, Mr. Yin?

**STATEMENT OF GEORGE K. YIN, CHIEF OF STAFF, JOINT
COMMITTEE ON TAXATION, WASHINGTON, DC**

Mr. YIN. Thank you, Mr. Chairman, Senator Baucus, and members of the committee. I am pleased to testify today about the tax gap and ways to reduce it.

As you know, the Joint Committee staff recently completed a report on options to improve tax compliance and reform tax expenditures in response to a request of the Chairman and Ranking Member. The report provides about 70 specific tax legislative options to address one or more of the many contributing factors to the tax gap and noncompliance.

In my brief time, I will describe some tax legislative principles to enhance compliance. The staff report contains a number of items that illustrate these principles. I have appended to my testimony summaries of each option in the report, and am happy to respond to any questions about them.

First, as has already been discussed, the most important way to reduce the tax gap is to simplify the law. Complex laws spawn inadvertent errors, as well as opportunities for intentional non-compliance, and contribute to taxpayer confusion and real or perceived unfairness in the tax system.

Studies have shown that taxpayers are less likely to be compliant if they perceive the tax system to be inequitable.

Now, I recognize that simplification is often in conflict with other policy objectives. But if a tax system fails to collect from taxpayers the proper amount of tax due, every other policy objective, whether it be efficiency, horizontal equity, redistribution, providing social or economic incentives, or simply financing the government's needs, is undermined. Thus, effective tax compliance and enforcement are core objectives, and simplification is the most important way to achieve them.

The current and earlier Joint Committee work has provided over 100 specific suggestions on simplification. Let me just say that, in addition to addressing issues like the AMT and certain larger areas like education and some of the benefit areas on which we have made suggestions, I would support the Chairman's initial point, which is that, in large part, it is just taking one step at a time.

These are hard issues. Individual provisions should be examined to see whether they are vulnerable to noncompliance, and if so, whether the policy objective that was designed for the provision would justify the level of exposure that the provision provides.

The second principle is to increase the visibility of transactions by, for example, requiring information reporting and tax withholding whenever administratively feasible. Withholding is the more effective technique and can be expected to help stimulate improved voluntary reporting and payment of tax apart from any amounts actually withheld.

To begin to address the problem of income under-reporting by sole proprietors, which is consistently the single largest contributor to the tax gap, the staff report proposes requiring withholding on certain government payments for goods and services.

The proposal can be expected to improve compliance to an important extent without burdening any private sector payors. The pro-

posal, thus, attempts to balance the goals of improving compliance, while not creating undue administrative burdens.

Third, where possible, avoid having tax outcomes depend upon difficult factual determinations. Such rules present compliance burdens, noncompliance opportunities, and enforcement difficulties. The report contains proposals to avoid having tax consequences depend upon such determinations such as valuation issues.

In cases where a factual inquiry is unavoidable, the report offers several rough, more administrable rules of thumb that attempt to approximate the result that would arise if facts were fully known and undisputed.

Fourth, treat the taxation of income and deductions consistently. The mismatched treatment of income and related deductions is a common sheltering technique. The report contains several proposals to prevent this type of inconsistency.

Finally, as appropriate, supplement technical rules with standards. A strictly rule-based tax system cannot prescribe the appropriate outcome of every conceivable transaction that might be devised by taxpayers. Thus, to improve compliance, technical tax rules should be supplemented with anti-tax avoidance standards to ensure that the Congressional purpose is achieved.

The staff report contains a proposal to apply a higher level of judicial scrutiny only to the relatively uncommon transactions bearing the characteristics of tax shelters. In developing this proposal, the staff examined the characteristics of each listed transaction and a number of others, including transactions described in the Joint Committee report on Enron.

By signaling to tax advisors and courts that tax rules should be interpreted in a manner consistent with Congressional objectives, the proposal may be expected to reduce tax shelter activity and the size of the tax gap.

Mr. Chairman, the Joint Committee staff looks forward to continue working with the committee on the proposals contained in the report, as well as in developing additional proposals to improve taxpayer compliance and reduce the tax gap.

The CHAIRMAN. Thank you.

[The prepared statement of Mr. Yin appears in the appendix.]

The CHAIRMAN. Now, Ms. O'Connor?

STATEMENT OF HON. EILEEN J. O'CONNOR, ASSISTANT ATTORNEY GENERAL, U.S. DEPARTMENT OF JUSTICE, WASHINGTON, DC

Ms. O'CONNOR. Good morning, Mr. Chairman, Ranking Member. Thank you very much for inviting me to speak with you this morning about the progress that the Tax Division of the Department of Justice has made in contributing to closing the tax gap.

While the tax gap remains a significant challenge, it is important to recognize the dramatic improvements in tax enforcement since 2001, the most recent year for which we have a reliable estimate of it.

Since then, the 500-plus men and women of the Department of Justice's Tax Division, including our 300 attorneys, have, among other things, brought civil injunction suits to stop tax scams early

and at their source, the promoters, even though criminal prosecution might be developed down the road.

We have brought suit against people and firms the IRS suspects of promoting tax shelters to obtain information about those shelters, including the names of those who engaged in them.

Through our civil litigation, we have also helped the IRS to identify those who have stashed money offshore to avoid reporting their full income for tax purposes. Through our criminal prosecution programs, we have ensured that, consistent with Department of Justice policy, the most serious provable charges are brought.

The results have been dramatic. Since we began our injunction program in 2001, we have obtained court orders enjoining more than 100 tax scam promoters and preparers of fraudulent returns.

When we get these court orders, we also ask the court to order the promoter to provide the IRS and the Department of Justice with customer lists. Although total numbers are yet to be determined, it is estimated that these cases involved as many or more than half a million participants, and attempted to cheat the United States' Treasury of nearly \$2 billion.

In the sophisticated tax shelter arena, we have proven wrong two assumptions that permitted this scourge on the tax system to flourish. We have proven that tax shelter promoters and participants will get caught, and when they do, their opinion letters will not necessarily get them out of penalties.

Without meaningful penalties, there is no down side to participating in an abusive tax shelter. During the last 4 years, by obtaining authoritative appellate decisions on tax shelters' lack of merit, the Tax Division has closed down tax shelters estimated to be worth over \$11 billion nationwide.

The shelter cases that the Division is currently handling implicate over \$20 billion in taxes, interest, and penalties payable to the Federal Treasury. The return on investment of dollars spent in the Tax Division of the Justice Department, depending on who, when, and what you count, is in the range of 10 to 20 to 1.

The prospect of civil enforcement alone will not convince everyone to comply with the tax laws, so the law provides criminal sanctions as well. Criminal prosecutions deter tax fraud and reassure honest taxpayers that the law is being enforced fairly and uniformly.

What effect the revival of tax enforcement will have on the tax gap cannot be measured immediately, but we can already see the impact on the behavior of tax scam promoters, on taxpayers, and on tax advisors.

In addition to this anecdotal evidence, a poll the IRS Oversight Board conducted last July and released last week provides concrete evidence of our progress. For the first time since the poll began in 1999, the 2004 results showed a positive trend in public confidence in tax enforcement. The poll results are consistent with our success in demonstrating our commitment to detect, pursue, and punish tax offenders.

But that is only part of the Tax Division's contribution. The Tax Division is important to the administration of the tax system precisely because it is not the Internal Revenue Service. Rather, it is part of the Department of Justice, whose name describes its mis-

sion. Justice requires that the laws be enforced uniformly and fairly.

The Tax Division can sometimes help lead the IRS into new areas of tax enforcement, such as our initiative to expand the use of civil injunctions to stop tax scam promoters.

But for the most part, the input of the Division's work flow is driven by the IRS's output, because only after IRS administrative tools fail to resolve the matter must the Tax Division come to bat. Tax Division activity, therefore, is a lagging indicator of the level of IRS enforcement activity.

The IRS's recent Son of Boss initiative is a good example of this. The IRS's recent announcement concerning the number of taxpayers who participated in the Service's Son of Boss settlement initiative was striking, not only because of the \$3.5 billion the Service has received through this initiative, but also because, out of nearly 1,800 Son of Boss participants that were identified through Tax Division litigation, one-third of those are not going to participate in the IRS settlement initiative. That is going to create a litigation tsunami which is going to be hitting the Tax Division, and is already beginning to hit.

The Tax Division is proud of the role that we have played in providing the enforcement stick that makes the IRS's carrot of settlement initiatives effective. It is essential that the Tax Division be able to continue providing the support that is so critical to the IRS's success in promoting voluntary tax compliance.

By closing down tax shelters, enjoining tax scams, and appropriately prosecuting criminal activity, we are promoting justice. There is much left to do, and we in the Tax Division look forward to continuing to undertake these challenges.

I look forward to answering your questions. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

[The prepared statement of Ms. O'Connor appears in the appendix.].

The CHAIRMAN. Now, Mr. George?

STATEMENT OF HON. RUSSELL GEORGE, INSPECTOR GENERAL FOR TAX ADMINISTRATION, U.S. DEPARTMENT OF THE TREASURY, WASHINGTON, DC

Mr. GEORGE. Thank you, Chairman Grassley. Chairman Grassley, Senator Baucus, thank you for the opportunity to present testimony on the subjects of the tax gap and the balance that the Internal Revenue Service is attempting to strike among enforcing the tax code, providing customer service, and protecting taxpayers' rights.

Mr. Chairman, I believe the importance of these issues cannot be overstated. Our Nation's duty to provide for the general welfare and protect its citizens is based on the ability to raise and collect revenue on a timely basis through taxes.

Because the tax gap poses such a significant threat to the integrity and administration of our system of voluntary compliance, one of the top priorities I have set for TIGTA is to identify ways the IRS can close the tax gap.

As you know, the tax gap is not new. In testimony before this committee in 1982, then-IRS Commissioner Roscoe Egger declared that the tax gap had been a problem for years, but had reached alarming levels by rising from \$29 billion in 1973 to \$87 billion in 1981. While \$87 billion was then, and still is, quite a bit of money, it is dwarfed by the latest IRS estimate that the tax gap now stands between \$312 and \$353 billion each year.

Recommendations have been circulating for years on how to close the tax gap. Some of those made 10 to 15 years ago are still relevant. I have discussed them in significant detail in my written testimony, Mr. Chairman, and will just touch on three briefly in my oral comments.

The first recommendation is to simplify the tax code. As you have heard repeatedly during this hearing, the complex tax code causes taxpayers to struggle to comply with their tax obligations and the IRS to struggle to apply the tax law. The Taxpayer Advocate identified the complexity of the tax code as the most serious problem facing taxpayers.

TIGTA audit work supports her conclusion. We have performed numerous audits testing the ability of the IRS's employees to respond accurately to tax questions. We have found that some IRS employees—whose job it is to help taxpayers with tax questions—cannot correctly apply the tax code.

Our most recent audit of the accuracy of responses provided by IRS employees to taxpayers over the telephone found that only 62 percent of the answers given were correct. Much of this inaccuracy is due to the complexity of the tax code.

The second recommendation that I will touch on this morning to reduce the tax gap is that the IRS should work with Congress to develop legislation requiring withholding on non-employee compensation.

Non-employee compensation is money paid to independent contractors who sell goods or perform services, such as sales representatives, painters, landscapers, and the like. According to IRS estimates, \$130 billion, or approximately 40 percent of the tax gap, is attributable to individuals who under-report their business income.

TIGTA maintains that requiring withholding on non-employee compensation could reduce the tax gap by billions of dollars. GAO and the Taxpayer Advocate have made similar recommendations in the past.

The third recommendation I will mention is that the IRS must continue to address the cost increases and schedule delays that have plagued efforts to modernize its computer systems.

Modernized systems will provide IRS employees with timely and accurate information on the status of tax accounts, allowing for improved customer service. Modernized systems will also dramatically improve the ability of the IRS to collect delinquent taxes, thereby reducing the tax gap.

Mr. Chairman, you also requested that I address the issue of the IRS reaching the appropriate balance among enforcement, customer service, and taxpayer rights.

Again, I have touched on this in some detail in my written testimony, but I will say that since the passage of the Restructuring

and Reform Act in 1998, the IRS has focused on customer service, and as a result, customer service has improved.

However, the progress the IRS has made in this area is counter-balanced by the fact that enforcement actions have dropped dramatically. Liens, levies and seizures against noncompliant taxpayers are all down significantly from their totals in the 1990s.

For example, in 1997, the IRS issued over 3.5 million levies; in 2004, just over 2 million levies were issued. The drop in seizures is even more striking, declining from over 10,000 in 1997 to just 440 in 2004.

Recently, however, enforcement actions have begun to increase. I believe the recent increase in IRS enforcement actions is a move in the right direction.

With that said, the IRS must exercise great care not to emphasize enforcement at the expense of taxpayer rights and customer service. I believe that steps to reduce the current level of customer service should be taken only with the greatest thought and consideration of their impact, and only with all the necessary data to support their actions.

Mr. Chairman, Senator Baucus, I appreciate the opportunity to share my views this morning, and I look forward to taking whatever questions you may have at the appropriate time.

The CHAIRMAN. Thank you.

[The prepared statement of Mr. George appears in the appendix.]

The CHAIRMAN. Now, Ms. Olson?

STATEMENT OF NINA E. OLSON, NATIONAL TAXPAYER ADVOCATE, TAXPAYER ADVOCATE SERVICE, WASHINGTON, DC

Ms. OLSON. Thank you, Mr. Chairman, Senator Baucus, and members of the committee.

Tax evasion and tax cheating are serious problems for the tax system and have real victims. The complexity of the tax code also contributes to the tax gap by causing inadvertent errors and by creating loopholes ripe for exploitation.

If you divide the \$256 billion-plus net tax gap by the roughly 130 million individual taxpayers, each individual taxpayer pays, on average, about \$2,000 extra in taxes each year to subsidize non-compliance. As the National Taxpayer Advocate, I view this as a serious violation of the rights of compliant taxpayers.

The IRS is to be commended for aggressively attacking corporate tax shelters and tax cheating by wealthy individuals. As we move forward, however, we must address the fact that an estimated two-thirds of the tax gap is attributable to noncompliance by self-employed individuals, not corporate tax shelters.

I am concerned that the IRS has not conducted enough research to design a comprehensive and long-term strategy to increase compliance in that sector.

The IRS's current guiding principle is: service plus enforcement equals compliance. Taxpayer service makes it possible, and even easy, for taxpayers to comply with their tax obligations by providing forms and tax preparation, answers to tax law and procedural questions, and the ability to resolve account problems.

Enforcement is designed to impose consequences on the relatively few taxpayers who do not comply, and thereby deter noncompliance

in general. Unfortunately, the IRS's equation does not tell us what is the optimal mix between service and enforcement, because each of the equation's elements is a variable.

For example, if we reduce service, there is no guarantee, no matter how much we increase our enforcement efforts, that compliance will increase overall. Indeed, it is entirely possible that an increase in enforcement initiatives, offset by a decrease in taxpayer service, would result in less compliance.

The IRS's current approach reflects the view that enforcement activity should be increased while taxpayer service is reduced. Is that the right answer? Within enforcement, where are our dollars best targeted?

The truth is, we have no idea. The IRS is able to track revenue collected as a direct result of its enforcement activities. While that is useful information, it is the indirect effect of IRS's activities on both the taxpayer service side and the enforcement side that generates a far greater amount of revenue.

Even if the IRS only audits about 1 percent of tax returns, for example, much larger numbers of taxpayers will choose to comply because of the possibility that they could be audited. Thus, a single audit has a ripple effect, or in economic terms, a multiplier effect.

But not all audits are created equal. One dollar spent on auditing industries with historically high rates of noncompliance, such as construction, may have a very different multiplier than an audit of a corporate tax shelter.

Similarly, 1 dollar spent on making it easier for taxpayers to comply with their tax obligations—for example, publishing forms, advertising e-file, answering tax law questions—almost certainly has a multiplier effect as well. We simply do not have adequate research to show where the next dollar is best spent.

Moreover, in terms of improving overall tax compliance, we do not have data that show whether the multiplier effect is generally greater at this time for enforcement or for taxpayer service. Thus, a decision to increase enforcement and reduce taxpayer service is, to a large degree, based more on instinct than solid research.

To be sure, this is not easy research to do, and it is a long-term project. But in the absence of better research, it is important to emphasize that the decision about how much to increase or decrease certain activities, such as the taxpayer assistance centers, represents merely a policy call based on educated guessing.

In my written testimony and in my most recent report to Congress, I discuss 24 options to address the tax gap. Some of these recommendations attempt to reduce opportunities for noncompliance, are relatively inexpensive, and can be implemented immediately.

Other recommendations require either legislative action or longer-term planning and some we may not want to implement for policy reasons, but many of my recommendations are actionable and all will have an impact on closing the tax gap.

As the IRS ramps up its enforcement programs, it must ensure that aggressive enforcement of the laws is balanced by aggressive protection of taxpayer rights. We must avoid the IRS's pre-1998 systemic failure to listen to taxpayers' concerns.

Toward that end, an effective IRS enforcement strategy must recognize that Congress established the Taxpayer Advocate Service as a safety valve against potential IRS enforcement excesses, and for TAS to accomplish its mission of protecting taxpayer rights, it must be adequately funded and be a key participant in all program planning.

In sum, I give the IRS high marks for its activities to combat corporate tax shelters and abusive schemes, but I believe the IRS needs to do much more, and better, research to help it map its future compliance initiatives.

In developing these initiatives, the IRS should keep in mind that both taxpayer service and enforcement, not enforcement alone, are responsible for our overall 85-percent compliance rate.

If we erode service to pay for enforcement, I suspect we will end up not only with a country full of unhappy taxpayers, but with a lower overall compliance rate as well.

Thank you.

The CHAIRMAN. Thank you very much.

[The prepared statement of Ms. Olson appears in the appendix.]

The CHAIRMAN. Senator Baucus intends to be here to ask questions as well, so, if I get done before he gets here, I will have to maintain the panel at the table.

First, to Mr. Yin. As you know, over the past 2 years I have pushed the Senate—and this committee, for the most part, has agreed with this action—toward what we call the codification of the economic substance measure. We have done that in several different bills.

This has been very controversial. We have had commentary on what we tried to do. Quite frankly, the commentary has been almost 100 to 1 against our codification.

I noted with interest that your staff of the Joint Committee has, for the first time, I believe, taken a position recommending codification of economic substance. The version you recommend in the tax gap report seems to be very targeted and limited somewhat compared to what the Senate did.

I would like to have you compare our proposal with your proposal and explain why you think your version might be the better of the two.

Mr. YIN. I would be happy to do that, Mr. Chairman. As you know, many of the concerns that have been expressed about the version that was previously supported in the Senate are simply variations of one common theme, which is that, if this step were taken by the Congress and passed into law, it would unnecessarily create uncertainty as to the tax consequences of many ordinary business transactions that have nothing to do with tax sheltering activity.

What we and the staff tried to do is, we tried to take those concerns to heart. We tried to craft a solution which would take the substance of what the Senate and your committee have previously advocated, but target it in a way to demonstrate that the focus of your committee's recommendation would be on transactions that have the characteristics of tax shelters.

By doing that, we were trying to find some middle ground between a rule that would be too widely applicable and one that would be insufficiently broad.

We did examine every tax shelter transaction that we were aware of, including a number of ones that were studied in the Enron report, to try to develop the appropriate characteristics.

I would say, it is not an easy task. I would not begin to suggest that we have found the perfect solution, but we were confident enough to put it out for your committee's consideration and Congress' consideration in this important question.

The CHAIRMAN. Ms. O'Connor, again, on economic substance, we have noted that most of the cases in which economic substance has produced an inconsistent or questionable policy, results have occurred in the Federal District Court or the Federal Appeals Court, or also in the Courts of Claims. This generally has not occurred, in my judgment, in the U.S. Tax Court, I suppose mostly because of more expertise in deciding taxation questions.

I note with particular concern the recent Coltec case before the Court of Claims in which the judge declined to apply the economic substance doctrine because Congress has not acted to codify the doctrine.

My question is, do you think the Court of Claims and the Federal District and Appeals Court possess the technical competency to interpret the intent of increasingly complex tax law? Do you think this is what lays at the base of the problem then on the economic substance doctrine?

Ms. O'CONNOR. The importance of the economic substance doctrine is directly related to a point that many people have already discussed this morning, and that is the complexity of the Internal Revenue Code, and the fact that that complexity permits people who put together tax sheltering transactions to provide for them a veneer of legitimacy.

It is penetrating that veneer of legitimacy and explaining to a court what is actually at the heart of a transaction that does create some complications for the attorneys who are presenting the case.

I am not sure I understand exactly what your question is with regard to economic substance. And as to the abilities of judges who are not tax specialists to entertain tax cases, I probably would be well advised to say as little as possible. [Laughter.]

The CHAIRMAN. Not being a lawyer, maybe I ought to accept your judgment on that, because I do not want to get you in trouble. But I could point out—and I will not ask you to comment further, but just so you know the basis of my question—there have been a lot of different opinions on this issue.

I am going to ask Director Everson to speak to the same question that I asked you.

Mr. EVERSON. We are concerned, Senator, with what can be forum-shopping by taxpayers based on perceptions of getting a better deal in one court as opposed to another. We do have a uniquely complex sort of back-end in this system where you can go, just as you indicated, to any one of the three different judicial review mechanisms. Perhaps this should be looked at as we look at tax reform.

The CHAIRMAN. You can probably comment, because we have had these different court cases looking at economic substance, to a different point, with the idea that we wanted to leave some flexibility. But that flexibility has turned into opposite opinions in some cases of what should be done about the courts at the District Claims and Appeals Court level.

Mr. EVERSON. I think that is just what I said. It should be looked at. It is the back-end of the system. I am concerned that there is forum-shopping that takes place out there.

The CHAIRMAN. So then it seems to me your statement then is in support of Congress doing some codification.

Mr. EVERSON. I am not addressing economic substance, sir. I am getting to that broader question you asked about District Courts versus, say, the Tax Court.

The CHAIRMAN. Yes. That is fine.

Now I want to follow up with another question. Last fall, we enacted the American Jobs Creation Act, shutting down LILOS and SILOS, but not without substantial concessions to shelter promoters that were in the process of setting up these abusive schemes.

The Senate-passed version would have shut down this abuse as of November 17, 2003, which was a year before our enactment. This tough deadline was watered down to March 13, 2004, 4 months later.

Then even worse, the enacted bill grandfathered in LILOS and SILOS if the schemes had been submitted for approval by the Federal Transit Administration after June 30, 2003, but before March 13, 2004.

It gives the Federal Transit Agency more time to approve the schemes until January 1 of next year, 2006. Incredibly, this provides shelter promoters another full year to get their deals approved by the Federal Transit Authority.

Treasury has been forced to grandfather in these rotten deals because of the bill's effective dates. I understand a special footnote had to be added to the IRS guidance on this abuse just to carve out these grandfathered sheltered deals.

Will it help your enforcement effort if Congress goes back and shuts down this give-away to tax shelter promoters? I want you to know that I intend to monitor which deals are trying to slip through the give-away. There is no way these deals deserve another year, but answer my question about the ease of administration, or if that is a concern of yours.

Mr. EVERSON. Senator, I appreciate your concern here. My concern is, this afternoon, I will be over at Ways and Means, and they did take a different view of this, as you just indicated. Obviously, I very much appreciate what you did in the JOBS act on shelters in general.

As you have stated, that was the toughest anti-shelter legislation since 1986. I agree with that. I appreciate your support. We are going forward, as you know, aggressively, to work on SILOS and LILOS on a continuing basis.

The CHAIRMAN. All right.

Before I turn to Senator Baucus, I have a question for Ms. Olson and Mr. George dealing with the issue of whistle-blowers.

I have seen first-hand the enormous benefit that whistle-blowers can bring to the table in helping all of government, but particularly those of us in Congress, in fighting fraud.

The False Claims Act has brought in over \$10 billion in the last 10 years that has been recovered from fraud, particularly in Health and Human Services, Department of Defense, but also other departments of government. While taxes are not covered by the False Claims Act, the Congress did give the IRS very far-reaching authority to encourage and reward whistle-blowers.

However, in my view of the whistle-blower program at IRS, it has been clear that the opportunities of encouraging and rewarding whistle-blowers have not been realized. I would ask you two your general views about this matter of encouraging whistle-blowers at the IRS.

Then I would ask Commissioner Everson to comment on the steps that the IRS and Treasury have taken to respond to my November letter to Secretary Snow on this matter of very strong importance to me personally, and to this committee.

Ms. OLSON. Mr. Chairman, I looked into this issue last summer, following your original hearing on the tax gap and listening to the gentleman who was testifying as the whistle-blower. I have several folks on my staff who have been very involved in this program in the past. What we gathered is some information that I found very interesting.

First, whistle-blowers only cost 4 cents on the dollar—the whole administration of the program—which is essentially the same cost of any enforcement program that the IRS runs.

What we also found was that there was really only a single program analyst in the IRS in the Small Business/Self Employment Division that issues guidance on this program, and that the rest of the authority over the program is spread out through the whole IRS.

Individual Revenue agents and Revenue officers make the recommendations about what rewards should be given, and essentially individually evaluate whether a lead is of any value whatsoever.

There is virtually no involvement or no one in authority in the Large and Mid-sized Business Division involved in this program, which is surprising, since so many of the leads involve corporate tax shelters or issues in that area. It seems like that would be an area of great impact.

We did make some recommendations including, at the very least, that the IRS should create a joint task force involving LMSB, Small Business, Criminal Investigation, and probably TEGE to really look at the administration of this program and try to get some coordination across divisions.

We also recommend that they look at the cycle time that it takes from the point where leads are processed, and then once it is determined that a lead is good, that a payment goes out to the whistle-blower. We have other issues that we will be glad to submit to you.

The CHAIRMAN. All right. Thank you.

Mr. George?

Mr. GEORGE. Thank you, Mr. Chairman. Many of the points that Ms. Olson raised are concerns of the Inspector General's Office. We have actually recently begun to plan for, and audit, this issue

based on your expression of interest. We would hope to have that completed in the not-too-distant future. We will definitely keep the committee staff informed.

I would note, also, I was at an event with former Commissioner Sheldon Cohen just last week where he raised this very issue. And while there are positive aspects to it in terms of increasing revenue and closing the tax gap, he noted that it has been used as an abusive tool in the past, too, and that is something that we want to certainly take into consideration when we consider this program.

The CHAIRMAN. We were talking about this being more used at the corporate level than at the individual level. Was that clear to you?

Mr. GEORGE. Well, I will make sure that we take up that point.

The CHAIRMAN. All right.

Now, Commissioner EVERSON, I ask you to comment just on a little different variety of my question about the response of your agency and Treasury.

Mr. EVERSON. Yes. We are looking at this. You and I have had conversations in the past. I know you had it in legislation and it got stripped out. We want to do more here. As you know, we have no shortage of leads on problems within the code. We would like to do more here.

We want to make sure that anything that does happen here statutorily has the right context to it, so that people who have been involved in promotions, as an example, cannot take advantage of this. It would have to be very carefully crafted to make sure that the right people who truly are independent of the conduct do not benefit from participating in this.

The CHAIRMAN. Could I ask you to comment on the fact that you have fairly broad authority in this area already, and the extent to which there is, in my judgment, not sufficient use of that broad authority?

Mr. EVERSON. Yes. I think we probably can do more in this area. I will be anxious to see what the Inspector General comes up with in terms of specific recommendations. I think that will be a useful exercise for us.

The CHAIRMAN. Thank you. I thank you all for your answers to the questions.

Senator Baucus?

Senator BAUCUS. Thank you, Mr. Chairman.

Just kind of a question, a clarification here, Commissioner. In the GAO report, on pages 13 through 15, essentially it points out that there is an increase of examination rates of individual filers, but that has been driven mostly by correspondence examinations, while more complex field examinations have continued to decline.

In fact, there is a chart in here which basically makes that point clear on how the correspondence is going up, but actually the field examinations—that is, audits—is declining. Is that accurate? Just, your comment about that.

Mr. EVERSON. I make it a practice not to question GAO facts, but that is substantially correct. I think that is a good thing. Correspondence audits are a very effective tool. If you look at what we are doing, it enables us to make selected inquiries on particular matters.

For high-income individuals, my recollection is—and I will confirm this figure for the record—that when we did correspondence audits in the last year, we were getting something like \$16,000, on average, for the audit in terms of the monies that would be assessed and coming in. Highly effective. You target one or two areas and go forward.

Now, we are trying to bring up the field audit rates, too. I think they are starting to edge up, particularly on the high-income folks as well. But we are not abandoning field audits, not at all, but we are trying to target where we do our work.

Senator BAUCUS. I would like whomever can answer this and has a strong view to address this: where do we get the greatest bang for our buck? I ask that question because of that, and I looked at your charts, Commissioner. Here is one. This is in no order. It says, “Criminal prosecutions recommended.”

Mr. EVERSON. Right.

Senator BAUCUS. It is a big increase. Well, a percentage increase. On an absolute basis, an increase, too, but not nearly as high as it was back in the late 1990s.

Mr. EVERSON. That is correct.

Senator BAUCUS. This has, for fiscal year 2004, 3,000, roughly, pursued, that is, criminal prosecutions recommended. So my question really is, what was the result of all that? How many were actually followed up? How many reached settlement? How many were prosecuted? What is the result, also in terms of revenue?

Mr. EVERSON. Sure. Let me make the first point, and then, of course, defer to Attorney General O’Connor.

That is the front end in the sense of, those are what we send over from our Criminal Investigations Division as recommendations. Justice has to go through their own process.

Senator BAUCUS. I understand. That is my question.

Mr. EVERSON. Then there is a lag time here, as she indicated.

Senator BAUCUS. I understand that. I am asking about the result.

Ms. O’CONNOR. The results are excellent.

Senator BAUCUS. Quantify the results, please.

Ms. O’CONNOR. There are some results that are not quantifiable. In the last 4 years, we have increased the number of prosecutions we have authorized per year by 60 percent. Last year, we authorized nearly 1,400 criminal tax prosecutions.

What is difficult to quantify is the deterrent value of that. Now, when we prosecute a tax criminal, we are after not only the deterrent effect that the publicity that we are doing that is going to gain, but we also want to collect the tax.

The Tax Division, in the last few years, has instituted a program of working with U.S. Attorney’s Offices and the Internal Revenue Service to make sure that, when someone is convicted of a tax crime, they not only go away to prison for a few years, but they also pay the taxes.

Senator BAUCUS. All right.

If I might, again, 3,000 pursued. How many actually prosecuted?

Ms. O’CONNOR. Three thousand is the number in the IRS records. That is not all tax crimes. That 1,359, those are prosecutions that we authorize. More often than not, those do go all the

way to prosecution. Those are not already prosecuted. We will authorize an investigation or a prosecution. It takes time, then, for the prosecution to go forward, so I do not have a final number for you on the number of people we convicted.

Senator BAUCUS. I understand that. Well, let us go back to 2002, in the last 3 years, 2002, 2003, and 2004. For the record, what is the number of criminal prosecutions recommended by IRS? Of those, how many were prosecuted? Of those, how many resulted in settlement? Of those, how many judgments did you get favorable to the IRS, and the amounts? If you could do that, please.

Ms. O'CONNOR. We would be happy to provide that for the record.

[The information appears in the appendix on p. 275.]

Ms. O'CONNOR. Let me just say, generally, though, with our prosecutions, they are either going to be prosecuted or they are going to plead.

Senator BAUCUS. I understand. That is why I broke it down. I understand that. The same is true, if I might, for the high-income audits. That is, how much? There is significant increase, as you pointed out, Commissioner, from fiscal 2001 to fiscal 2004?

Mr. EVERSON. Yes.

Senator BAUCUS. Again, on an absolute and a proportionate basis, how much was recovered from those audits?

Mr. EVERSON. Sure. If you go back to the chart on the enforcement revenues, this shows the progress we have made. When you get into a discussion of the overall tax gap, just between 2001 and 2004 there, it has gone from 33.8, I believe it is, to 43.1. That includes a bump-up in collections, but a very big bump-up in examinations that includes just these kinds of results as we get more money. I will be happy to provide you the background.

Senator BAUCUS. I am just curious.

Mr. EVERSON. Also, so you can see the correspondence audits. Those are a good deal for the taxpayer.

Senator BAUCUS. That would be good. That would be good.

And you have one chart on high-income audits.

Mr. EVERSON. Yes.

Senator BAUCUS. You have another one on individual audits. I assume that high-income is a subset of the individual ones.

Mr. EVERSON. Yes, it is, sir. Yes, sir.

Senator BAUCUS. All right.

I am just concerned, frankly, about the data we have, or do not have, to tell us the size of the tax gap, where it is, and that kind of a thing. I think this is your study. I am not sure which study this is.

Your research program which you just concluded states that under-reporters make up about 80 percent of the tax gap.

Mr. EVERSON. Yes.

Senator BAUCUS. I am a little concerned that you have not updated, though, the non-filer figures since 1988.

Mr. EVERSON. Right.

Senator BAUCUS. That is about 13 years ago. I have a hunch our society has changed a little bit. You say that is about 10 percent of the gap, non-filers, as I recall.

Mr. EVERSON. Yes.

Senator BAUCUS. I am just curious why you are not looking at non-filers.

Mr. EVERSON. I want to make one clarification, too. I think maybe our report has been a little misleading. I have never said that that whole tax gap was in the State of Montana, as you have it on that map. [Laughter.]

Senator BAUCUS. I appreciate that.

Mr. EVERSON. Can we go back to the tax gap map itself? You can see that we have color-coded this. You should, I think, have a copy of it in your materials.

Senator BAUCUS. I do.

Mr. EVERSON. Where we have said, green is where we feel the numbers are good, blue is where we feel the numbers are all right, and yellow is where they are suspect, let us say.

To get to the non-filing, the reason we have estimated that as blue, as good, is because what we can do is we can take a look at census data and use that census data in conjunction with what we get about individuals to do a reasonable estimate of the size of the non-filing gap.

I am not worried that the non-filing gap that is out there at the left is improperly sized in terms of an order of magnitude. The number that I think that is a potential problem out there, just as your colleague Senator Conrad and others have said, is the corporate area, because we have not updated those numbers. That is based on compliance behaviors, if you will, from 1988 taken forward into 2001, the old model.

Now, let us go to our pie chart, if we could, on the allocation of the resources. I think that the decision that was taken a couple of years ago to do the individuals first was the right one.

Senator BAUCUS. I am sorry, Commissioner. I was distracted. Go ahead. I am sorry.

Mr. EVERSON. Yes. All right.

I want to emphasize that the decision that was taken a couple of years ago to do individuals first, that was the right one, because it is such a preponderant part.

Senator BAUCUS. It sounds like it.

Mr. EVERSON. But going beyond this, the other thing is, as you know, and Senator Grassley knows, our budget request and our whole efforts have been geared in the last several years to high-income individuals and corporations, the work we have been doing in those areas. So, I am comfortable that we have waited to get after this piece.

We do need to, as you have said, as the GAO has said, in the coming months, to make sure we look at what our long-term research program will be and fit this in. The next thing we are going to do is flow-throughs. That is a very important piece of this. But I think the sequencing we have done here is right.

Senator BAUCUS. Right. Now, if you could just help me understand. Are you going to go back and look at non-filers?

Mr. EVERSON. I think we are going to be doing more work in refining the non-filer work over the next year. My research director is confirming that to me. Yes.

Senator BAUCUS. All right.

What percent of individual taxpayers are non-filers?

Mr. EVERSON. About 10 percent.

Senator BAUCUS. Ten percent of all individual taxpayers are non-filers?

Mr. EVERSON. Well, that is the figure you see. If you go back to that figure, the non-filing gap, it is about 10 percent of the total. The under-payment gap is about 10 percent as well. That is the balance where someone recognizes that they have got a balance due to us and then does not pay it.

Senator BAUCUS. Now, the yellow boxes here.

Mr. EVERSON. Yes.

Senator BAUCUS. When are we going to get to those?

Mr. EVERSON. I think we will reach those judgments over the coming months, and when we present the President's budget next year we will have finalized what the sequencing and the fund investment is on this. It costs about \$100 million to do this work on individuals over a couple of year period. I will be honest with you.

When I got on the job—it is about 2 years now—the first thing I was asked, the head of the Small Business Division said to me, can we not cut out doing this national research program, because it took so many auditors off-line. But we said, no, even though you in the Congress did not give us as much money as the President requested. So, there is a squeeze here and we are trying to balance.

Senator BAUCUS. Not us. Others.

Mr. EVERSON. Well, you are doing your best for us, and I appreciate that.

Senator BAUCUS. It kind of raises another question. Let me back up. Last July, Senator Grassley and I sent you a letter asking you to recommend certain procedures, actions that should be taken to get at the gap.

Mr. EVERSON. Right.

Senator BAUCUS. Especially with respect to, I think it was the cash economy, independent contractors, the self-employed. I think that is what it was. I asked you to rank solutions according to burden on a taxpayer so we could get some sense of how to resolve all these, not keeping you totally blind of the politics of this, because obviously you have to do what is right here.

Mr. EVERSON. Right.

Senator BAUCUS. Actually, it was not a letter I sent you, it was at a hearing.

Mr. EVERSON. It was an exchange somewhat like this.

Senator BAUCUS. That is what it was, somewhat like this.

Mr. EVERSON. Yes.

Senator BAUCUS. And you said you would get back by March 31. Can you give me an idea of when we are going to get that?

Mr. EVERSON. Let me make a broad comment about attacking the tax gap. As others have indicated, I look at this, as there are two sides of this. The first side is improving the enforcement. That is a big block of it.

The second side of this is statutory reform. We have been improving enforcement. We are doing two things. We are improving our internal processes and we are also trying to augment our resources.

Within reform, we have to consider issues like reducing complexity, just what you talked about this morning. I have testified

to the Tax Panel about reducing the number of education credits. People will be better able to understand what they are doing and avoid inadvertent errors.

Senator BAUCUS. Right.

Mr. EVERSON. We have to look at increased reporting. This is an example. There is a continuum here between increased reporting, which is somewhat burdensome. The example that is always cited here is that, in 1986, the Congress took its decision to request that you put down a Social Security number on dependents. Before that, you did not have to do that. The next year, 5 million dependents vanished.

So even though there is not necessarily a change in enforcement, just reporting itself has a positive effect. So, you can move, as many have suggested and has been discussed this morning, to requiring reporting for payments to businesses or to other unincorporated service providers. Then you can go all the way up to withholding.

You asked what the dollar value of that would be. I cannot tell you that right now until we refine our estimates. That does not sound like you got much out of your inquiry last year. I want to assure you, you really did. Mr. Mazor, behind me, did not want to give me the ranges we have given you on March 31.

Senator BAUCUS. He works for whom?

Mr. EVERSON. He works for me. But we are quite sensitive about telling our career people to come up with the numbers in any way that might imply that they are being rushed in their work.

So what we have done here is we have bracketed these estimates right now, as I said in my opening statement, and we will refine them over time. Then we will be able to better answer the question you asked, sir, as we get a little more detail on this.

Senator BAUCUS. All right. So, again, when? When will we get what?

Mr. EVERSON. At the end of the year, what we will have is the refinements of these estimates that will say how much. Let us go to the individual line items. We need copies of this, I think, for the members.

Senator BAUCUS. What I am really getting at is, when will we get a response to the interchange that we had last July?

Mr. EVERSON. Well, when the research is completed. I indicated, if you go back and look at that record, that this would be dependent on the research. We now have ranges established in these areas. We are going to tighten these ranges up on each of these line items.

As has been indicated, a lot of this is in the business income under-reporting by individuals, so you cannot say how much are you going to get until you know how big the problem is.

We will have that refined by the end of the year. Then what you have to do, sir, is you have to marry up that increased reporting and the other things that should be considered in the tax reform initiative as well.

Senator BAUCUS. So what kind of metrics make sense? If we want to find out how we are progressing here or not progressing, what kind of metrics make sense?

Mr. EVERSON. Obviously, that enforcement revenue metric is a key one. I am concerned. The Comptroller General and I had a conversation last evening—we were talking about today's testimony—just on this point that was raised, Section 1204.

It is a little tough, I think, for you to hold the IRS accountable to get metrics results here if, as 1204 says, I cannot hold individuals accountable for getting results. So, that is a dynamic we need to talk about as we establish the metrics here, because a lot of this does tie to enforcement.

Senator BAUCUS. What about his suggestion about being more creative with SES employees?

Mr. EVERSON. That is impossible under the law right now. The law says the Internal Revenue Service shall not use records of tax enforcement results to evaluate employees, and then it goes on about quotas. Senator Grassley and I have had a conversation on that.

I do not want any quotas for my people, but it is kind of crazy if I have Revenue agents out there and they are complying with every procedure that RA has that protects taxpayers, every procedure, they are doing it right, they are following all the processes, but Chuck Grassley is taking in half as much money as Max Baucus.

Now, I use that example only because Senator Baucus is asking the question. [Laughter.] Even though you are both following all the procedures in the law, you are doing twice as well, we cannot recognize the differentials.

Senator BAUCUS. All right.

What about you?

Mr. EVERSON. Well, I do not know.

Senator BAUCUS. We can hold you accountable.

Mr. EVERSON. I think you are doing a good job of that. [Laughter.]

Senator BAUCUS. But, I mean, whatever way you think works best for you. I think you are doing a good job.

Mr. EVERSON. Thank you.

Senator BAUCUS. If we asked the Commissioner of the IRS to come up with certain data by certain dates, can we not leave it up to you to figure out how to do that?

Mr. EVERSON. Yes, we can, and we are doing it on things like this.

The other point I want to make, though, is going back to what David Walker said. You are not helping us because of the instability in the system. As the code keeps changing as we try to deliver metrics, it is tough.

Let me give you the simplest example here. Since 2001, you have said the gap is higher. Well, that may or may not be true.

The individual piece where the noncompliance rate is relatively high, those receipts have declined since 2001 from about \$994 billion to, projected, under \$900 billion this year. So, the impact of noncompliance in the individual sector is actually lower in terms of lost money.

On the other hand, you had an increase in the receipts that have come in from corporations and from employment taxes since that

time, so there is a mixed question here, independent of other changes that are taking place.

Senator BAUCUS. Maybe we should ask you to give us recommendations to simplify the code.

Mr. EVERSON. Well, I can only suggest to you that I have testified before the Tax Panel. I have had conversations with the Secretary. I had one with him just last week. He is very cognizant of the compliance issues. If I can take just 1 more minute, with the indulgence of the Chairman, I will tell you the five points of reference that I have indicated that I think are important for tax reform.

The first is that we have to build a system that is for the 21st century, and not for the 1960s, that recognizes just these kinds of changes where before people worked for AT&T, or the post office, or the IRS. As I indicated, we get a lot of good information on that.

But the world has changed. There are many more self-employed people, people who are independent contractors. It is against the law for us to look at the issue of who an employee is. That has been frozen since 1969. We need to look at the changes in the system there.

Senator BAUCUS. Other areas?

Mr. EVERSON. The second point. We need to look at the effect the attitudes towards compliance will be. The President has talked about that, in saying that appropriate progressivity must be retained. Obviously we cannot be perceived as harming one element or another.

A third area is administrability. You are not going to do us any favor if you bolt on new taxes, like the VAT, without simplifying other areas. That will make it harder.

The fourth point is a very simple one: do an apples to apples comparison. There are compliance problems in all systems. Do not compare a suboptimized system today with a perfect, theoretical system.

Then the last point, sir, is just pay attention to the transition. We cannot afford to just slap this together and have a rocky start. If we have a rocky start, it will take us decades to recover.

Senator BAUCUS. I appreciate that.

This is my last point, or question. Who is in charge in the administration? Is there a sense of urgency in the administration? Has Karl Rove talked to you about this, for example?

Mr. EVERSON. On tax reform or the tax gap?

Senator BAUCUS. Well, reform, gap. They are part of the same problem. As every panelist has said, part of the gap solution is reform.

Mr. EVERSON. Yes.

Senator BAUCUS. So I am just asking, who is in charge of trying to close the gap? Is it the Secretary? Is it the President? I mean, there are a lot of disparate parts here. You have the Service, you have the Tax Division, you have the Taxpayer Bill of Rights, you have the IG, and who knows who else.

We have these kinds of hearings often. But my belief is, we are more likely to get it if somebody really cares at the top in the administration and cracks the whip a little bit if it gets people working together to address the gap.

Mr. EVERSON. I think the President has very much indicated his support for addressing this, through the budget request he has made for the IRS. As you are well aware, the average non-home-land, non-DoD domestic discretionary program is down 1 percent in the budget. We are getting a 4-percent increase.

Second, he has introduced reform. Those are the twin elements that have to take place, as everybody has said this morning, for us to get this job done.

Senator BAUCUS. Well, you are a good soldier, Commissioner, and I appreciate that. But I, frankly, do not see it yet, and I hope to see it.

Mr. EVERSON. Well, I will share your concern, sir.

Senator BAUCUS. Thank you very much.

Thank you.

The CHAIRMAN. Thank you. I have four questions. I hope all of you do not have to go to the bathroom yet. [Laughter.]

Commissioner Everson, I would like to follow up on my program where we were talking about whistle-blowers, but now I want to turn to an area where, by contrast, the administration has shown tremendous zeal for involving the private sector. That would be in the area of private debt collection that Congress authorized last year in the JOBS bill.

However, it is my understanding that this program still has not gotten off the ground. I would ask you for its status, and also ask any other panelist for their comments on this program, that is, how much tax gap is represented by uncollected taxes.

Mr. EVERSON. Yes, Senator. I am happy to do that. This is an important new tool for us. As you have indicated, over 40 States already use private collection agencies to supplement their own efforts. We have to do this right, though, because of the very real concerns that people have about privacy, about debt collection in general.

So we are working now to let initial contracts on this, and they will be let in about 2 or 3 months. We will begin collecting the monies, I would suggest to you, in January of next year.

The reason for the lag here is that it is the interaction of the systems. We have to do a lot of work in our computer systems because, if Mark Everson has a balance due, you cannot have somebody calling from a private collection agency if I have just sent the check in last week.

So, you have got to make sure that we interact correctly with these folks, but they cannot have broad access to our system. We have to set up a new, very protected system that both gives them the current information they need, but no more than they need to do this work. So, that is going to take us a little time.

The other thing we are very cognizant of is, we are only going to get one chance to do this. This was, as you know, a closely debated question. We are very appreciative of the additional authority, and I think it is going to make a real difference, though.

The CHAIRMAN. All right.

Mr. George?

Mr. GEORGE. Thank you, Mr. Chairman. The Inspector General's Office supports the Commissioner's deliberate approach to this, given the high stakes involved. If this thing, as the Commissioner

noted, is done incorrectly, it could truly adversely impact the people who are least in need of the harmful effects of this.

My office has developed an audit plan. We will closely monitor this matter and we will assess its effectiveness as soon as it is up and running. We hope to do that as soon as the announcement is made as to who the PCAs are.

Ms. OLSON. Mr. Chairman, my office is working closely with the team in the IRS that is trying to design this. Our particular focus is ensuring that the collectors are trained on taxpayer rights.

We are actively monitoring a referral program so that cases where taxpayers are concerned come to my office to have their cases worked, working with the IRS, so that we can monitor what is going on with this program to make sure that it does not have an impact on taxpayer compliance and that it does not cause any of the violations that the Commissioner has talked about.

The CHAIRMAN. Yes. All right.

Mr. Commissioner, there is this recent study by TRACK, the research organization at Syracuse that released a report that states that, while big corporations involved in agriculture and manufacturing are nearly always audited by the IRS, that big banks and insurance companies are only audited 20 percent of the time. With the involvement of the farmers, it causes me to ask whether you agree with the analysis of TRACK. This study raises serious questions about the need for full answers.

First, I would ask that the IRS clarify this issue for the committee by providing industry-by-industry audit rates and by size of firm for large- and mid-sized corporations.

I would also like the IRS to provide the amount of tax voluntarily paid by each sector, as well as the amount assessed and ultimately paid by the sector in response to IRS audits.

Second, a senior IRS official was quoted, in response to TRACK, as saying that the IRS allocates corporate auditors based on areas with high risk of tax evasion, so then I ask the IRS to provide the committee the analysis it used to make that determination.

Finally, the committee benefits from outside analysis of the work of the IRS, such as performed by TRACK. And while I do not want the IRS unduly burdened with complying with FOIA requests, I also expect the IRS to make available to analysts audit and exam information. The public benefits from openness in this area, and we should be able to have an honest discussion based on those facts. So, those are just requests, now.

Mr. EVERSON. I would be happy to comply with those requests, sir.

The CHAIRMAN. All right.

[The information appears in the appendix on p. 276.]

The CHAIRMAN. Question. We recently developed testimony regarding the abuse of the research and development credit. We have learned from conversation with the IRS that there are enforcement problems regarding the definition of "qualified research," the proper treatment of allocated expenses, and abuse of the reduced credit election.

Last year, we learned that, after the credit was claimed, the technology was unsuccessful. The patents were donated to charity

in exchange for an inflated deduction. We shut down that abuse, as you know.

This year, we are learning that intangibles are migrating offshore to avoid tax through abuses of the transfer pricing rules and cross-sharing agreements. We are also reviewing what role the advance pricing agreements may play in this area.

Is there a bigger problem with intangibles that Congress should be focusing on? Is it time for Congress to step into the fray with legislation?

Mr. EVERSON. Senator, this is an area of concern. You have covered a lot of ground in laying out that problem. As I have indicated, issues relating to corporations are very significant for us. Your committee has been very helpful in terms of highlighting the APA.

In particular, our Chief Counsel, Donald Korb, has had a series of public hearings on this. I think we will be able to share with you some initial conclusions quite soon about where we need to go in this area. So, we do need to look at this. Intangibles are important and are a focus for us.

The CHAIRMAN. All right.

To Ms. O'Connor and you, Commissioner, your testimony noted that you have had considerable success in obtaining shelter promoter information, notwithstanding attempts by promoters to hide behind Section 7525, the accountant-client privilege section.

It would seem to me that you have been dealt a significant blow in your war on shelters by a ruling of Judge Holderman of U.S. District Court for the Northern District of Illinois in the BDO Seidman issue, where the judge held all but one of the 267 documents for which the accounting firm asserted privilege from IRS scrutiny.

Would you comment on the impact of that ruling and whether you need additional support from Congress in overcoming these types of procedural road blocks to anti-shelter enforcement?

Ms. O'CONNOR. I think to call the recent decision by Judge Holderman in the BDO Seidman case a significant blow in our efforts is a vast overstatement. I prefer not to comment on particular litigation, particularly since this is a recent decision, and decisions about whether to take an appeal are still under consideration.

I will note, however, that in this case this is one in a series of rulings in the government's efforts to get information from this firm, and we have been largely successful. These particular documents were a small subset, a vast majority of which we have already obtained, and which the IRS is already putting to good use.

As for your offer of additional support, I am always happy to have the Senators' support for additional enforcement.

The CHAIRMAN. I must ask, is there any reservation in the response you just gave to me, a la your reluctance to make a point of view to our committee on whether District Judges, Circuit Judges, and Courts of Claims are competent to issue on tax decisions?

Ms. O'CONNOR. You can ask very difficult questions. The Commissioner properly noted that taxpayers have a choice of forum. They can ask the Tax Court to redetermine the Commissioner's de-

termination that they owe additional taxes, or they can go to a District Court or the Court of Federal Claims.

Certainly, when a taxpayer takes a case to the District Court of Federal Claims, they are going to find a judge who is not a tax specialist. That is true of any particular technically complex area of law. Part of the duty of the advocate is to explain everything that is necessary, sometimes within page limits.

And with the schedules that the judges set, sometimes perhaps it is not always possible to explain everything that one needs to in order for the court to see things that would support the government's position.

I point out, however, that some of the recent setbacks you mentioned are also just at the trial level. And again, we have as an option to have a Court of Appeals take a look at those decisions.

The CHAIRMAN. All right.

Now, Commissioner Everson, and then we will dismiss the panel.

Mr. EVERSON. One of the singular achievements of the last several years has been in this area in terms of the professionals who this country entrusts to give advice to taxpayers to pay, as you say, no more than what they owe, but what they owe.

Too many of them, through these abusive shelters, were doing just the opposite. They were into value creation and risk management and they tried to obscure the facts from the IRS by saying that it was traditional privilege. That has been, I believe, substantially rebutted.

This is further strengthened by the good work you have done in the JOBS Act. Because of the penalties that are in there for non-disclosure or list maintenance problems, we have got a lot of tools here. I think we have turned the corner here.

We encourage the Justice Department to be aggressive in supporting our positions here. We are not going to win every case every time, but we want people to know that when they say "no dice," we are going to continue to pursue it. We respect the courts. When they tell us we are wrong, obviously we abide by that. But we count on the Justice Department. They have done a great job on this privilege litigation.

The CHAIRMAN. All right. I thank you all very much for your patience.

Now I call the third panel, two people. Kevin Brown, Commissioner of the Small Business/Self-Employed Division of IRS, testifying about four major areas of continued compliance problems in the fuel distribution system.

Then we will hear from Ms. Nancy Jardini, Chief of Criminal Investigation, overseeing IRS investigations of criminal violations of the tax code. She will discuss IRS efforts to combat fuel tax credit and fuel excise tax evasion.

I am going to ask Mr. Brown to go first, then Ms. Jardini.

STATEMENT OF KEVIN M. BROWN, COMMISSIONER, SMALL BUSINESS/SELF-EMPLOYED DIVISION, INTERNAL REVENUE SERVICE, WASHINGTON, DC

Mr. BROWN. Good morning, Mr. Chairman. I appreciate the opportunity to be here today to describe recent compliance trends and

issues in highway-related excise taxes, and to highlight Internal Revenue Service activities to address them.

I would also like to thank your committee staff members who assisted us during the preparation for this hearing.

Fuel excise taxes are an important source of Federal and State revenues and finance a large share of improvements to the Nation's transportation system. The excise taxes imposed on gasoline, diesel fuel, and kerosene account for more than 90 percent of Federal Highway Trust Fund receipts. For fiscal year 2004, the fuel tax receipts deposited into the trust fund totaled \$35.7 billion.

Maintaining the flow of receipts into the trust fund requires vigorous compliance activity. Federal and State excise tax rate increases over the years have increased incentives for tax evasion. The ongoing revenue losses are a significant problem for tax administrators and for honest business taxpayers facing competition from tax evaders.

The IRS has identified multiple points within the fuel distribution system that facilitate fuel tax noncompliance. First, the misuse of dyed diesel fuel for tax evasion purposes persists, despite the numerous legislative and regulatory steps taken by Federal and State governments. During fiscal year 2004, the IRS conducted more than 120,000 fuel inspections and assessed over \$4.6 million in penalties for misuse of dyed fuel.

Fuel "bootlegging" is a second significant problem. Taxpayers evade payment of taxes to a high rate jurisdiction by bootlegging the fuel from a jurisdiction with a lower rate. This activity occurs between States frequently, costing the States tax revenues and their share of the Federal Highway Trust Fund.

A third critical compliance problem is associated with improper declarations of motor fuel on import/export documents. This activity, which involves bringing taxable fuel into the United States in a manner that evades payment of any and all excise taxes, occurs at border crossing points and points of entry for ocean-going vessels.

Finally, the creation and use of adulterated fuel through "cocktailing" (or blending) the product is a significant compliance problem. This technique generates higher profits by increasing the volume of diesel fuel with used motor oil and other distillates, including pollutants, cleaning agents, and unfinished refinery products. This activity not only results in an ongoing revenue loss, but also may be dangerous to the public when hazardous waste is blended with taxable fuels.

In the last decade, there have been four major excise tax compliance success stories, all of which reduce significantly the opportunities for tax evasion. First, moving the point of taxation for motor fuels from the distributor back to the terminal. Second, requiring home heating oil and other diesel products to be dyed red if sold tax-free. Third, taxing undyed kerosene on the same basis as the regular diesel fuel. Finally, implementing the Excise Summary Terminal Activity Reporting System, also known as ExSTARS.

ExSTARS enables the IRS to track all fuel transactions that occur within the fuel industry's bulk shipping and storage system and provides the capability to track fuel from the pipeline system

to the point of taxation for the Federal excise tax at the terminal rack.

Through ExSTARS, we receive information on six to nine million fuel transactions monthly, from over 96 percent of registered terminals. The fact that 30 percent of these reports come to the IRS on paper has hampered our efforts to use the data to detect under-reported tax on individual excise tax returns.

However, this will be changing in January of 2006, and I want to acknowledge this committee for its lead role in including mandated electronic filing of information reports in the recently passed American Jobs Creation Act.

Mandated electronic filing, coupled with recently enacted legislation for increased penalties, will enable us to close the gaps in information reporting for ExSTARS.

In conclusion, while many challenges remain, I believe that we are making progress in our goals to ensure that Federal motor fuels taxes dedicated to the Federal Highway Trust Fund are reported and paid.

This progress is due in no small measure to the continued leadership, guidance, and active support of our excise tax programs from this committee and the Congress.

Mr. Chairman, I thank you for this opportunity to appear before this distinguished committee, and I would be happy to answer any questions you and the other members of the committee may have.

The CHAIRMAN. Thank you.

[The prepared statement of Mr. Brown appears in the appendix.]

The CHAIRMAN. Now, Ms. Jardini?

STATEMENT OF NANCY J. JARDINI, CHIEF, CRIMINAL INVESTIGATION, INTERNAL REVENUE SERVICE, WASHINGTON, DC

Ms. JARDINI. Good afternoon, Mr. Chairman. It is a privilege to testify here today with my colleague, Mr. Brown. I want to echo his comments of thanks to your staffs for working with us to prepare testimony on these important issues.

The Internal Revenue Service's Criminal Investigation Division works to detect, halt, and investigate tax fraud and to protect the revenue. Our testimony today will focus on our very limited, but important, role in the overall IRS efforts involving compliance in the areas of fuel tax credits.

Fraud related to fuel tax credits is definitely on the rise. CI addresses this on several fronts. We halt fraudulent refunds from being released; we criminally investigate fuel tax credit claims that are fraudulent; we refer questionable claims for civil examination; and we accept referrals of developed criminal conduct from the Small Business/Self-Employed Division.

From 1999 until today, CI's overall efforts to detect and deter refund crimes have resulted in stopping nearly \$4 billion in false refund claims associated with a broad variety of schemes, including the fuel tax credit.

CI employs a highly sophisticated data mining system, known as the Electronic Fraud Detection System, which houses more data than any other computer system at the IRS, with the exception of the master file, and has the capability to combine refund returns with other IRS files into one centralized system. This enables us

to quickly detect suspicious activity and identify anomalous patterns.

During the 2003 filing season, we identified the fraudulent use of the fuel tax credit as an area of emerging concern, identified over \$19 million in suspicious fuel tax credit claims, and initiated 22 criminal investigations.

Nonetheless, the number of schemes continued to rise in 2004, with a total of over \$30 million in suspicious claims identified. In response, CI almost doubled the number of criminal investigations in this area.

Some of the characteristics of these schemes include stolen taxpayer identities, the use of Schedule Cs, multiple years of returns filed concurrently, and returns filed in different IRS processing centers.

I would like to point out that just yesterday an indictment was handed up in the District of Minnesota involving almost \$2 million in fraudulent fuel tax claims claimed in 978 Federal income tax returns during 2004.

After the original scheme perpetrated by a return preparer was discovered, IRS data mining tools allowed us to trace other returns originating from the same source. Of those returns, 99 percent contained false fuel tax credits.

In January of this year, an individual was sentenced to Federal prison for submitting false claims for refund of the fuel tax credit in the District of Wisconsin.

In that case, the IRS processing center noticed a number of returns claiming the fuel tax credits for individuals who, due to their occupation, would not be expected to be able to claim that credit. The defendant was part of a scheme with others who filed claims totaling over \$90,000 in fraudulent fuel tax credits.

In another recent scheme, we have identified over 4,200 tax returns claiming more than \$6 million in fuel tax credits utilizing paper returns and Schedule Cs, and that investigation is currently ongoing.

Based upon the emerging fraudulent conduct identified in this area, we have several initiatives under way. We are continually improving our electronic fraud detection system by adding new information about schemes to the fraud criteria.

In the President's 2006 budget request, \$10.7 million is requested to be used to curtail refund crimes which would be used to support efforts in detecting fraudulent fuel tax refund claims and other types of similar schemes.

The IRS is aggressively focusing on fraud referrals, ensuring that Revenue agents, Revenue officers, and Special Agents know and understand the badges of fraud and work together to ensure that fraudulent activity is criminally investigated.

Finally, we continually improve our fraud scheme alerts to ensure that all employees of the IRS who are associated with returns processing are aware of the emerging schemes, including the fuel tax credit schemes.

Mr. Chairman, I thank you for this opportunity to appear before your distinguished committee, and I welcome your questions.

[The prepared statement of Ms. Jardini appears in the appendix.]

The CHAIRMAN. I am going to start with you, since you just finished, and it follows on to something you said.

Ms. JARDINI. All right.

The CHAIRMAN. Your testimony reflects increased criminal referrals and paid taxpayer fraud. Have you seen significant growth in the filing of fraudulent fuel tax refunds or of new and different schemes that maybe you have not seen before?

Ms. JARDINI. We certainly have, Mr. Chairman. To put it in context for you, 3 years ago, in 2002, we identified \$2 million in fraudulent fuel tax credit schemes. In 2004, we identified \$21 million. So, we are seeing significant growth in this area. We are seeing these returns being submitted by promoters and preparers.

However, in the case that I referenced in my oral testimony that was a plea agreement in January, it was a nurse who was completing returns for a number of associates, all fraudulently claiming the fuel tax credit claim. So, this is not necessarily traditional preparers or promoters who are engaging in this type of activity.

As I pointed out, we are seeing some trends in this area. We are seeing the fuel tax credit being claimed largely in returns that have Schedule C income. We are seeing multiple returns filed in multiple different types, in multiple different campuses, and we are looking at all of that conduct.

The CHAIRMAN. Yes. Following up on your comment about paid preparers, how often do they participate in the refund schemes that you detect, not only in fuel fraud, but you might say in all types of fraudulent refund claims? Would additional preparer penalties in this area be helpful in the administration of the claims?

Ms. JARDINI. Overall, in all of the refund claims that we detect and identify, over half of those schemes utilize a paid preparer. However, more than that utilize some type of preparer or promoter who would not be covered by the regulations around Circular 230 and the traditional enrolled agents, or certified public accountants, or professional tax preparers.

Within Criminal Investigation, we devote about 15 percent of our direct investigative time, of our agents' time in the field, to these types of investigations.

In our estimation, support for the data mining and intelligence analyst type of activity that we are pursuing to detect these types of returns and stop them would be enormously useful.

The CHAIRMAN. Thank you.

Mr. Brown, it is my understanding that the IRS already receives information reports on fuel transactions from registered terminals. Would additional reporting requirements help the IRS to combat additional fuel tax noncompliance?

Mr. BROWN. Yes. On the individual income tax side, as Commissioner Everson just testified, we find that where we have information reporting, coupled with document matching on the part of the Internal Revenue Service—the type of thing you see with interest and dividends in your personal situation—we have enormously high compliance rates. So the more information reporting we have, we absolutely believe that does increase compliance.

There are many places in this chain, as the fuel passes through the chain. Fuel is imported into this country. It comes ashore in

barges. It leaves domestic refineries. It travels through pipelines, it travels on barges, it travels on trucks.

Our information reporting system, right now, picks up when the fuel is delivered to a terminal. That is where we have information reporting. As you can see, there are gaps in other places in the process where information reporting would prove quite beneficial.

The CHAIRMAN. I want to continue with you. You have outlined four areas of significant noncompliance. Would further changes to the penalty structure deter additional noncompliance?

Mr. BROWN. One of the common schemes that I have referenced in my written testimony is what they call "cocktailing," or blending. There is a chart that shows this, actually.

The CHAIRMAN. Yes. I have a picture of that here. It is difficult to read, but I did see a picture of that right here.

Mr. BROWN. It is a handwritten sheet there that talks about how people are blending. The reason they do this, I have learned over the course of overseeing this excise tax area, is that diesel engines will fire off of almost anything, so we put in legal taxable fuel, fuel that has been taxed.

But if you mix it with all kinds of other products, it can be industrial waste of different types, used dry cleaning fluids, used motor oils, you mix those with the taxed fuels, and suddenly you have more volume. You have a gallon that is half taxed and half not taxed, and there is a tremendous incentive for profit.

As you can see from this, it does not require an advanced degree in chemistry to figure out how to make something run in a diesel engine. Rather, this is fairly rudimentary when you look at it.

The penalty structure, as it is right now, is if one of our fuel compliance officers happens to detect a cocktailed fuel, one that is mixed with inappropriate substances and taxable fuel, there is no penalty.

The sanction is that you have to pay tax on what you have added. That is it. The fuel with used dry cleaning fluids, whatever it might be that you have added, you now have to pay tax on that as if that is proper fuel. There is no penalty.

I would liken it to the tax shelter arena. The calculation on the part of many sophisticated people in this country over the past several years was that, if I get caught, all I have to do is pay tax and interest. I might as well roll the dice and see what happens, because there is no real penalty here.

The CHAIRMAN. Last question to Mr. Brown. We continue to have concerns over tax preparers and taxpayer participation in fraudulent refund claims. Could you describe why fuel fraud claims have become an enticing target for tax fraud schemes?

Mr. BROWN. Yes, sir. When you look at page 2 of the 1040, on line 43, which is highlighted there, that is sort of the "eureka" moment for taxpayers. That is when they discover how much tax they owe and they can compare it to what has been withheld or what they have paid in estimated taxes so far during the year.

And right below there is the opportunity to claim credits. I think our experience leads us to believe that taxpayers see the tax they owe, skip down a few lines—as you can see on the chart, they are down to line 69—and suddenly there is an opportunity to wipe the tax out.

One possible solution to that would be to not allow someone to claim this credit on the income tax return, but rather to claim it on an excise tax claims form.

We have a specific form, an 8849. And there, that would also guarantee that it is reviewed by an excise tax reviewer as opposed to just being reviewed in a service center by someone who is used to reviewing all kinds of returns.

The CHAIRMAN. Yes. I said that was the last question, but let me ask one more.

I understand that an unscrupulous fuel dealer can avoid penalties for not paying tax on fuel by claiming the fuel "is not suitable for use," even though the diesel engine could run on the fuel without a problem.

Can you please explain in more detail how someone can avoid enforcement action by gaming the "suitable for use" rule?

Mr. BROWN. Certainly. Actually, in California we lost a criminal case partially due to this very argument. We were unable to convince a jury that a refiner's product was suitable for use, even though we were able to demonstrate that the product ultimately ended up in a diesel-powered highway motor vehicle.

What is suitable for use is obviously a subjective determination in the eyes of some judges in this country. I would urge you to take a look at a standard that many States have employed successfully.

They have changed their definition to "fuel offered for sale." That, then, triggers the taxation if it is merely offered for sale as opposed to getting into some heated debate about, actually, is it suitable for use in an engine.

The CHAIRMAN. And that has been very successful in those States?

Mr. BROWN. In those four States, they have reported success with that standard, yes.

The CHAIRMAN. And so out of 50 States, 4 use that standard.

Mr. BROWN. There are four that I am aware of right now that recently changed to that standard.

The CHAIRMAN. Well, obviously, I thank you very much for your testimony. We started out with all panels today opening this hearing with the question about how we close the \$350 billion tax gap. We have heard many good suggestions and comments today in response to that question. These will help inform the committee and help us in our work that is always ongoing to close the tax gap.

But we have also faced some cold reality, particularly from the first two panels. Closing the gap will be a very hard and difficult journey.

Now, of course, it is easy for any of us in Congress to give speeches, on the eve of the day, decrying the tax gap. The hard part is doing something about it.

I think we made a good start last year in the JOBS bill, and I hope to continue that good work in cooperation, as I always do, with Senator Baucus, during this Congress. I thank all of the panels for working with us to help solve some of these problems of the tax gap.

Thank you very much. There may be questions. I should have announced this to the other panelists as well. There may be some members who could not come here, or even members who were

here, that have additional questions for response in writing. We would give 2 weeks for the response, please. Thank you all very much.

The hearing is adjourned.

[Whereupon, at 1:06 p.m., the hearing was concluded.]

A P P E N D I X

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

STATEMENT OF KEVIN M. BROWN COMMISSIONER, SMALL BUSINESS/SELF-EMPLOYED DIVISION INTERNAL REVENUE SERVICE

Mr. Chairman and Members of the Committee, I appreciate the opportunity to describe recent compliance trends and issues in highway-related excise taxes and to highlight Internal Revenue Service activities to address them.

Background:

The IRS is responsible for administration of more than 40 separate excise taxes, including taxes on various fuels. Fuel excise taxes are an important source of federal and state revenues and finance a large share of improvements to the nation's transportation system. The separate excise taxes imposed to finance the Federal Highway Trust Fund program include the tax on gasoline, diesel fuel, and kerosene.

Gasoline, diesel fuel, and kerosene (or taxable fuel) account for more than 90 percent of trust fund receipts. When taxable fuel is removed from a terminal at the rack, it is taxed unless it is dyed diesel fuel or kerosene. The registered position holder is liable for payment of the tax. All position holders must be registered with the IRS. Additionally, terminal operators must register with the IRS as a condition of storing untaxed (undyed) motor fuels.

Taxpayers report their excise tax liability quarterly on Form 720, which is due one month following the close of the quarter. On the Form 720, taxpayers report their liability (for example, the number of gallons of each type of fuel and the tax due) and may make claims of nontaxable use of the fuel. Any balance due is paid at the time the Form 720 is filed. Taxable fuels are taxed as follows:

- gasoline at a rate of 18.4 cents per gallon; and
- diesel fuel and kerosene at 24.4 cents per gallon.

These rates include 0.1 cents per gallon to fund the Leaking Underground Storage Tax (LUST) Trust Fund.

For FY 2004, the fuel tax receipts deposited in the Federal Highway Trust Fund totaled \$35.7 billion.

Compliance Problems

Maintaining the flow of receipts into the Highway Trust Fund requires vigorous compliance activity. Federal and state excise tax rate increases over the years have increased incentives for tax evasion, with the tax exceeding the profit margin and/or the cost of the product, in many instances. The ongoing revenue losses resulting from tax evasion are a significant problem for tax administrators and honest business taxpayers facing competition from tax evaders.

When taxpayers do not voluntarily meet their tax obligations, the IRS must use its enforcement powers to collect the taxes due. During FY 2004, IRS examined 1,293 Forms 720 and recommended \$90.2 million in additional taxes. However, we simply do not have the resources to address every case of non-compliance. Consequently, we apply the bulk of our resources to the most critical areas of excise tax noncompliance, while still maintaining coverage for all other areas.

The IRS has identified multiple points within the Fuel Distribution System (FDS) that facilitate fuel tax non-compliance. These points occur between the importation of crude oil and finished petroleum products and the ultimate use of taxable fuel. The IRS continues to address the most critical areas of excise tax non-compliance, including:

- the continued misuse of dyed diesel fuel;
- “bootlegging” to evade payment of taxes at a higher rate;
- improper declarations on import/export documents to evade payment of any and all taxes; and,
- “cocktailing” to illegally reduce the effective tax rate.

I will describe each of these in greater detail.

The first of these critical compliance problems is the continued misuse of dyed diesel fuel for tax evasion purposes. This activity persists despite the numerous legislative and regulatory steps taken by Federal and state governments. The IRS currently has approximately 120 Fuel Compliance Officers (FCOs) to monitor over 1,300 terminals, all fuel wholesalers, thousands of retail motor fuel outlets, and U.S. border crossings. Additionally, these Officers are charged with conducting periodic inspections of on-road vehicles on highways throughout the country.

The FCOs continue to uncover fuel misuse. For example, during FY 2004, the IRS FCOs conducted more than 120,000 fuel inspections and assessed over \$4.6 million in penalties for misuse of dyed diesel fuel. A further analysis of these results indicates that 70 percent of the penalties involved the misuse of fuel by taxpayers in the construction and agriculture industries. Both of these industries are subject to broad-based tax exemptions for non-highway use of motor fuels, thereby, presenting opportunities for abuse.

Fuel “bootlegging” is a second significant problem. This form of tax evasion occurs when a low tax jurisdiction is located near a high tax jurisdiction, and taxpayers scheme

to evade payment of taxes at the higher rate by “bootlegging” the fuel from the jurisdiction with the lower rate. This activity occurs between states frequently – costing states tax revenues and their share of the Federal Highway Trust Fund. For example, if the tax rate in Georgia is 7.5 cents, taxpayers may illegally bootleg the fuel for sale in North Carolina where the tax rate is 24.2 cents. The pennies-per-gallon difference is huge in an industry where over 600 million gallons of product move through the Fuel Distribution System daily. The IRS is currently partnering with its state tax counterparts to establish the first “joint compliance center.” This center will be staffed with both Federal and state enforcement personnel to share information, leads, and conduct joint examinations. This coordinated approach will allow both the IRS and state revenue organizations to better leverage resources to address this, and other, critical areas of noncompliance.

A third critical compliance problem is associated with improper declarations of motor fuel. Tax is imposed on the entry of taxable fuel into the United States. This activity involves the illegal entry of fuel to the United States in a manner that evades payment of any and all excise taxes, and occurs at border crossing points and points of entry for ocean-going vessels. There are 55 border crossings between Canada and Mexico, and more than nine million trucks cross these borders into the United States each year. Currently, these activities can only be detected by conducting border checks. Each check involves detaining a truck, reviewing the manifest, extracting a sample of the cargo, and analyzing the sample to determine if the substance matches the description on the manifest. These border checks are constrained by both the limited resources – IRS has only 120 FCOs to perform all fuel compliance activities throughout the country – and the potential disruption of international traffic due to the time required for each truck inspection under the existing processes.

In one case, we identified an evasion scheme whereby the taxpayer brought fuel into the U.S. and avoided the fuel information reporting requirements implemented in the late 1990s by diverting and storing the fuel in a facility operated by unregistered persons. We also have identified instances where individuals sought to evade the tax by misusing the bulk transfer system, which allows fuel to be moved from one barge-loading facility to another barge-loading facility tax-free. In this instance, the individuals diverted the non-taxed fuel, in route from one barge-loading facility to another, by off-loading the fuel from the barge to tanker trucks to be delivered directly to retail outlets. This illegal action enabled these individuals to bypass the intervening, and statutorily mandated, movement of the fuel from the barge-loading facility to a registered fuel terminal where the federal excise tax is imposed.

Another critical compliance problem is the use of adulterated fuel through “cocktailing” or blending the product. This tax evasion technique creates higher profits by increasing the volume of diesel fuel with used motor oil and other distillates including pollutants, cleaning agents, and unfinished refinery products. This form of tax evasion is attractive for two reasons. First, the substances used to extend the fuel are often not regulated and, hence, are not in any fuel reporting system. Second, adding substances that are regulated as waste materials to diesel fuel allows an unscrupulous individual to get paid to dispose

of the waste product(s) and then get paid again by blending the waste product in the fuel. This tax evasion technique not only results in an ongoing revenue loss, but also may be dangerous to the public when hazardous waste is blended with taxable fuels.

Even activities not connected with the taxation of fuel at terminals, such as the cleaning of barges that deliver crude oil and other products to refineries, have been linked to schemes to evade excise tax. In these examples, the barge companies pay to have the waste products that accumulate in the bottom of barges removed and disposed of properly. Individuals engaged in this “stripping” activity combine these waste products with legitimate diesel fuel destined for highway uses, as seen in a recent conviction in the state of Texas.

Compliance Strategies and Successes:

In the last decade, there have been four major Excise Tax compliance success stories. First, moving the point of taxation for motor fuels to the terminal rack significantly reduced opportunities for tax evasion, some of which were carried out on a multi-million dollar scale by sophisticated criminal organizations. Second, requiring home heating oil and other diesel products to be dyed red if sold tax-free eliminated another key source of evasion. The third was the taxation of undyed kerosene on the same basis as the regular diesel fuel with which it is often mixed. The fourth was the implementation of the Excise Summary Terminal Activity Reporting System (ExSTARS) to collect and share information about the movement of all fuel and related products throughout the country.

What is ExSTARS

Matching information received from employers, financial institutions, and other businesses with information reported by taxpayers has long been recognized as one of the most powerful tools that the IRS uses to ensure income tax compliance. In fact, when third parties provide information reporting to IRS (such as for interest and dividends) that is fully matchable, we find that at least 90 percent of the personal income received by taxpayers is reported.

Responding to industry concerns and recognizing that compliance with the Excise Tax laws of this country would be greatly enhanced by a similarly constructed Excise information matching system, Congress mandated the development of such a system in the 1990s. ExSTARS is the information reporting system created by this mandate. It enables the IRS to track all fuel transactions that occur within the fuel industry’s bulk shipping and storage system – pipelines, barges, and terminals. ExSTARS also provides the capability to track fuel from the pipeline system to the point of taxation for the Federal Excise Tax at the terminal rack.

The design, development, and implementation of ExSTARS is a tribute to the working collaboration between the IRS, contractors, the Federal Highway Administration, state tax administrators, and industry stakeholders over more than a five-year time period.

This success story was a direct result of the sustained investment provided by the Congress through the Transportation Equity Act for the 21st Century.

I am pleased to report that, as part of the ExSTARS implementation, we are currently receiving information on six to nine million fuel transactions monthly. Approximately 70 percent of these are filed electronically – the rest are received on paper. When the system was first rolled out in April 2001, we received information from only 894 out of 1346 (66%) registered terminals. As a result of our outreach with industry groups and individual taxpayers, we now have received information from over 96% of registered terminals. As the universe of filers has increased, we have been able to rely on the data to identify failures to comply with the information reporting requirements, identify unusual and/or questionable movements of fuel, and identify leads for possible non-compliance.

I must also report, however, that we have been limited in our efforts to use the data thus far to detect underreported tax on individual excise tax returns. While the system has been designed to perform this function, it has remained cost prohibitive to transcribe the detailed and extensive information associated with the 30% of filings that we receive on paper. I want to acknowledge this Committee for its lead role in including mandated electronic filing of information reports with 25 or more transactions in the recently passed American Jobs Creation Act. This requirement will be effective January 1, 2006. Once the database is populated sufficiently throughout 2006, we will be in a position to begin fully using the system as it was designed – to detect unreported transactions subject to excise taxes and to verify the tax liabilities reported on the quarterly Forms 720.

In addition to mandating electronic filing, Congress enacted other legislation designed to increase not only the filing compliance with ExSTARS, but also the accuracy of the data reported on the returns. Penalties of \$10,000 for the initial failure to register; failure to file ExSTARS information returns; and failure to include all required information were enacted. These penalties, coupled with the mandated electronic filing, will enable us to close the gaps in information reporting for ExSTARS.

I know this Committee is exploring several options for expanded ExSTARS reporting. If these proposals are enacted, we are prepared to work with you and all impacted stakeholders to leverage the existing technology of ExSTARS to meet the new requirements.

Other Key Internal Revenue Service Compliance Strategies

While ExSTARS will enhance compliance efforts, including detecting the misuse of dyed fuel, instances of willful non-compliance will continue to require IRS intervention. In several of these areas, the IRS has explored the use of technology to address excise tax evasion resulting from bootlegging, cocktailing and improper declarations.

For example, the IRS developed “fuel fingerprinting” technology to combat fuel tax evasion occurring “below the rack.” This technology examines the “chemical fingerprint” of samples taken from retail stations for adulteration, or for a mismatch with samples taken from the terminal racks that normally supply those stations. Fuel fingerprinting allows for the detection of “transmix” taken out of pipelines, waste vegetable oils, used dry-cleaning fluids, and other chemicals that may be mixed with diesel fuel and find their way into the tanks of trucks on the road. This technology, which provides a more efficient and comprehensive method to monitor compliance compared to traditional audit techniques, is currently available throughout the country. Additionally, we are expanding its use from diesel fuel to gasoline this fiscal year.

In the past, our examinations have focused on transactions arising from the sale of fuel at terminals, wholesale distributors and retail stations. This was based on the principle that the federal excise tax attaches as fuel leaves a terminal. In addition, we have had a “below the rack” compliance program to address issues around illegal blending of non-taxed products into legally taxed fuel. Now we are expanding our examination focus to address recent examples of non-compliance as products leave refineries. Refineries produce a number of petrochemical products from every barrel of oil. Only a portion of these products are taxable. We have detected instances of products such as solvents or cleaners (which are nontaxable if appropriately used for other purposes) being brought into the fuel distribution system at later stages to avoid the excise taxes due. These products are frequently blended with taxable fuel and sold on the retail market. Another example involved the disbursement of fuel from terminals under a product name that qualified for a non-taxable removal from the terminal. Millions of gallons of diesel fuel were shipped as “distillate blendstock.” The purchaser of the fuel claimed it was export, but has been unable to provide any proof of export.

The above examples are part of an overall concern we are addressing. We have determined that 12.5 billion gallons of fuel disbursed non-bulk each year from registered terminals are classified as nontaxable. This represents over 6% of all fuel leaving these terminals and is reported to the IRS as being for industrial use. We are starting a national examination effort to verify that these disbursements are actually used for industrial purposes and not diverted for use as a fuel in a motor vehicle.

In addition, we have partnered with external parties to provide specialized training to excise agents on refinery accounting, production and shipping practices. This training gives our agents the expertise to decipher complex chemical names and to determine the true functionality of the product and whether it should be taxable. In our first examination employing these new techniques, we are proposing over \$130 million in tax and penalties, and we have made referrals on several potential criminal cases for the companies that purchased the fuel from the refineries.

Additionally, shortly after becoming Commissioner of IRS’ Small Business/Self-Employed Division, I created a National Territory dedicated to managing the fuel tax program. Once it is fully implemented, this operation will consist of a Territory Manager, five Fuel Tax Managers and 50 Fuel Tax Agents. They will receive specialized training,

including forensic accounting and auditing techniques relevant to each of the stages of the Fuel Distribution System, to enable them to better detect the inappropriate and illegal diversion of taxable fuel.

How Can the Congress Help

The progress we have made to date is due in no small measure to the continued leadership, guidance, and active support of our Excise Tax Programs from this Committee and the Congress. We are pleased to report the successes described here today, and seek your assistance with future efforts to address and eliminate noncompliance with federal excise tax requirements.

As I have described, significant challenges remain. Continued funding – as requested in the President’s Budget – is needed to sustain the gains that have been made to date and to move forward to implement the excise tax provisions included in the American Jobs Creation Act. Future funding also will be critical for the maintenance and enhancement of the ExSTARS and its related systems.

Conclusion

Mr. Chairman, in conclusion, I believe that we are making progress in our goals to ensure that federal motor fuels taxes dedicated to the Federal Highway Trust Fund are reported and paid. In addition, we are using technology in the administration of the excise tax program more efficiently and effectively than ever before. I thank you for your continued support.

**WRITTEN TESTIMONY OF
COMMISSIONER OF INTERNAL REVENUE
MARK EVERSON
BEFORE
THE SENATE FINANCE COMMITTEE
ON "THE \$350 BILLION QUESTION: HOW TO SOLVE THE TAX GAP"
APRIL 14, 2005**

Introduction

Mr. Chairman and members of the committee, I am pleased to be here today to discuss the tax gap with you. I would also like to provide you with some early updates to our estimates of the individual income tax underreporting gap, as I agreed to do when I met with you last July. Additionally, I would like to provide you with an overview of the steps we are taking now and into FY 2006 to reduce the individual income tax underreporting tax gap and to provide you with a summary of efforts we have undertaken to deal with abuses of the tax system.

As you know, the tax gap is the difference between the amount of tax imposed on taxpayers for a given tax year and the amount that is paid voluntarily and timely. The tax gap represents, in dollar terms, the annual amount of noncompliance with our tax laws.

Early Estimates

Today, I will share with you some preliminary results of our analysis of the compliance data recently compiled by our National Research Program (NRP). The bottom-line results are similar to those we previously observed: although American taxpayers remain substantially compliant with the tax laws, the tax gap is nonetheless quite large in dollar terms. The preliminary results for Tax Year 2001 indicate that individual income tax reporting compliance may have gotten a little worse, but not alarmingly so, since 1988, the last time we performed a similar study.

Historically, there have been three types of income that are not well represented in compliance audits: informal supplier income, tip income, and unreported income that is not detected by auditors. Our detailed analysis of the NRP data will be supplemented with other data and special analyses to account more accurately for these three income types. These supplemental analyses in the past have taken several years to complete after the audit data have become available. We plan to apply new technologies this time, and we expect to have detailed, more reliable estimates of the tax gap available by the end of this year.

In the meantime, we have developed a set of preliminary updates to our tax gap estimates based on an initial analysis of the NRP data. We derived these estimates using a simple and quick approach that reflects the historical magnitudes of adjustments made to the raw audit data to account for informal suppliers, tips, and undetected noncompliance.

Our preliminary updates employ a range of estimates, reflecting different assumptions and levels of certainty. To give an idea of the magnitudes involved, our old projection of the overall Tax Year 2001 gross tax gap (i.e., for all types of tax, and all forms of noncompliance) was \$311 billion, based on data from the 1980s and projected forward. Our initial updated estimates, incorporating data from the recently completed study, range from \$312 billion to \$353 billion. The range for the net tax gap (i.e., the amount of the tax gap left after enforcement efforts and collection of late payments) is from \$257 billion to \$298 billion. The corresponding noncompliance rate associated with our old projection was 14.9 percent, while the new estimates range from 15 percent to 16.6 percent. I want to emphasize at this early stage in our analysis that these ranges are not upper and lower bounds; our final estimates could conceivably lie outside that range, and it is even more likely that our estimates for specific components of the tax gap (e.g., specific line items) will change significantly once we complete the detailed analysis. The range of estimates we are providing today also does not represent a statistically-based confidence interval, although we do plan to include such intervals with our comprehensive estimates at the end of the year.

Noncompliance takes three forms: not filing required returns on time; not reporting one's full tax liability even when the return is filed on time; and not paying by the due date the full amount of tax reported on a timely return. We have separate tax gap estimates for each of these three types of noncompliance. Our preliminary estimates of underreporting by individuals appear to be consistent with previous studies, indicating that the underreporting portion is about 80 percent of the overall tax gap, with nonfiling and underpayment splitting the remaining 20 percent.

The National Research Program

Before providing more detail about these new estimates, I want to put them in context. I will start by summarizing the features of the new NRP data upon which the estimates are based, and then explain what the estimates do and do not include.

The NRP data that were ready for analysis in early January represent the first comprehensive reporting of compliance data since Tax Year 1988. We conducted several much narrower studies since 1988, but nothing that would allow us to update our estimates of the tax gap. All of our estimates of the tax gap in recent years have been rough projections that assume no change in compliance rates among the major tax gap components; the magnitude of these projections merely reflected growth in tax receipts in these major categories. Like the compliance studies of the past, the NRP was designed to allow us to meet certain objectives: to estimate the overall extent of reporting compliance among individual income tax filers, and to update our audit selection formulas. I will focus today on the first of these objectives.

Regular audits have two important shortcomings as a basis for compliance measurement. First, returns selected for regular audits are not intended to be representative. Second, the audits are not exhaustive, but instead focus on issues that appear to be most in need of checking. In the past, IRS overcame these shortcomings by conducting thorough, exhaustive audits on a representative sample of returns. From the early 1960s through 1988 we periodically conducted the Taxpayer Compliance Measurement Program (TCMP), consisting of line-by-line audits of random samples of

returns, which provided us with information on compliance trends, and allowed us to update audit selection formulas. By the 1990s, however, it became apparent that we needed to find a less intrusive way to measure compliance with the tax laws. The National Research Program grew out of that need, and introduced several innovations designed to reduce the burden imposed on taxpayers whose returns were selected for the study.

The first NRP innovation was to compile a comprehensive set of data to supplement what was reported on the selected returns. The sources of the “case building” data included third-party information returns from payers of income (e.g., Forms W-2 and 1099) and prior-year returns filed by the taxpayers. Also, for the first time we added data on dependents from various government sources, as well as data from public records (e.g., current and prior addresses, real estate holdings, business registrations, and involvement with corporations). Together, these data reduced the need to ask taxpayers for information, with some of the selected taxpayers not needing to be contacted at all by the IRS. In effect, these data allowed us to focus our efforts where the return information could not otherwise be verified. This pioneering approach was so successful it is being expanded into our regular operational audit programs.

A second major NRP innovation was to introduce a “classification” process, whereby the randomly selected returns and associated case-building data were first reviewed by experienced auditors, referred to as classifiers, who identified the best way to handle each return in the sample. In this way, each return was either: (1) accepted as filed, without contacting the taxpayer at all (though sometimes with minor adjustments noted for research purposes); (2) selected for correspondence audit of up to three focused issues; or (3) selected for an in-person audit where there were numerous items that needed to be verified. In addition, the classifiers identified compliance issues that the auditors had to evaluate, though the examiners had the ability to expand the audit to investigate other issues as warranted.

Other NRP innovations included streamlining the collection of data, providing auditors with new tools to detect noncompliance, and involving stakeholders (including representatives of tax professional associations) in the design and implementation of the study. Moreover, a more focused selection process resulted in the NRP sample including around 46,000 returns—somewhat fewer than previous compliance studies, even though the population of individual tax returns had grown over time. Clearly, the NRP approach was much less burdensome on taxpayers than the old TCMP audits, which examined every line item on every return. At the same time, we expect that the data collected through the NRP will be about the same quality as that collected under TCMP. A portion of the sample was designed to allow us to test the reliability of this methodology.

The new NRP data relate only to the accuracy of timely filed individual income tax returns. We are therefore able to use the data to update our estimates of just the individual income tax underreporting gap and the self-employment tax underreporting gap. All other components of our tax gap estimates remain the same projections to Tax Year 2001 that we have been using for the last few years. It is important to emphasize that the other components of the overall individual income tax gap remain unchanged. Specifically, we do not yet have new estimates for other taxes such as the corporate

income tax or the estate tax. Moreover, we do not yet have a new estimate for the individual income tax nonfiling gap, though we anticipate having an update later this year. We are also not changing our Tax Year 2001 figures for the underpayment gap, because these are actual amounts tabulated from our Master File records rather than estimates or projections. (The underpayment gap is the one exception to the rule that the tax gap cannot be observed, and therefore must be estimated. That is because the underpayment gap is the amount that is reported on timely filed returns, but is not paid on time—information that is available on IRS records.)

Distinguishing the Tax Gap From Related Concepts

The tax gap is not the same as the so-called “underground economy,” though there is some overlap (particularly in the legal-sector cash economy). For example, the tax gap does not include the illegal sector of the economy, and the underground economy does not include tax noncompliance problems such as overstated deductions or improper filing status.

Equally important, the tax gap does not arise solely from tax evasion or cheating. It includes a significant amount of noncompliance due to complexity of the tax laws that results in ignorance, confusion, and carelessness. This distinction is important, though at this point, we do not have sufficiently good data to help us know how much arises from willfulness as opposed to innocent mistakes.

The New Estimates

Our preliminary estimates of the individual income tax underreporting gap based on the new NRP data range from \$150 to \$187 billion, representing about half of our overall tax gap estimates of \$312-\$353 billion. This is consistent with the fact that the individual income tax accounts for about 46 percent of all tax receipts. Moreover, these figures are roughly in line with our earlier projections from compliance data compiled in the 1980s, though they suggest that reporting compliance among individuals has worsened slightly since Tax Year 1988. It is important to note, however, that the data represent a single point in time for Tax Year 2001 and so cannot tell us whether compliance trends today are improving or getting worse.

Preliminary NRP-Based Tax Gap Estimates, Tax Year 2001

<i>Tax Gap Component</i>	<i>Gross Tax Gap (\$ billions)</i>	<i>Share of Total Gap</i>
Individual income tax underreporting gap	150-187	48-53%
Understated non-business income	42-57	13-16%
Understated net business income	83-99	27-28%
Overstated adjustments, deductions, exemptions, and credits	25-30	8-9%
Self-Employment tax underreporting gap	51-56	16%
All other components of the tax gap (not updated yet)	111	
Total Tax Gap	312-353	
Note: Detail does not add to totals due to rounding		

As in previous compliance studies, the NRP data suggest that just over half (\$83-99 billion) of the individual underreporting gap came from understated net business income (unreported receipts and overstated expenses). About 30 percent (\$42-\$57 billion) came from underreported non-business income, such as wages, tips, interest, dividends, and capital gains. The remaining \$25-\$30 billion came from overstated subtractions from income (i.e., statutory adjustments, deductions, and exemptions), and from overstated tax credits.

The corresponding NRP-based preliminary estimates of the self-employment tax underreporting gap range from \$51 to \$56 billion, and account for about one sixth of the overall tax gap. Self-employment tax is underreported primarily because self-employment income is underreported for income tax purposes. Taking individual income tax and self-employment tax together, then, we see that individual underreporting contributes about two-thirds of the overall gross tax gap.

Early indications are that the sections of the Form 1040 where the most noncompliance occurs have not changed dramatically since the last compliance study in 1988. The amounts least likely to be misreported on tax returns are subject to both third-party information reporting and withholding, and are therefore the most "visible" (e.g., wages and salaries). Amounts subject to third-party information reporting, but not to withholding (e.g., interest and dividend income), exhibit a somewhat higher misreporting percentage. Amounts subject to partial reporting by third parties (e.g., capital gains and mortgage interest payments) have a still higher misreporting percentage. And, as expected, amounts not subject to withholding or to third-party information reporting (e.g., sole proprietor income, and the "other income" line on the 1040) are the least "visible" and, therefore, are most likely to be misreported.

We expect to be able to provide good estimates of these misreporting rates for each line of the 1040 once we complete our detailed analysis of the NRP data at the end of this year. In the meantime, early indications are that reporting rates have remained fairly stable, with a few exceptions. First, the underreporting of net income from "flow-through" entities such as partnerships and S-corporations appears to be on the rise. This is consistent with what we have been finding in our regular audits, as taxpayers

use increasingly sophisticated abusive schemes to reduce or eliminate their tax liability. With this in mind, we are exploring how to conduct our next NRP reporting compliance study on flow-through entities—not just to monitor compliance in this area, but also to help develop better audit selection methods and other creative interventions. Second, the reporting of sole proprietor income and expenses (e.g., gross receipts, bad debts, and vehicle expenses) appears to have worsened. With transactions that are less “visible” to the IRS, and with very low audit rates by historical standards, some sole proprietors may have become emboldened to cut corners on their taxes. Other small business owners may simply be swamped by the cost and complexity of meeting their tax obligations and other business requirements. Third, early indications are that taxpayers in 2001 tended to overstate their deductions somewhat more than in 1988, the last tax year for which we have comparable compliance data. Like most business income and expenses, many of these deductions are not subject to third-party information reporting.

What We Are Doing Today to Address the Tax Gap

Most Americans pay their taxes honestly and accurately, and have every right to be confident that when they do so, their neighbors and competitors are doing the same. Let me provide an overview of the steps we have taken over the past year to bolster this confidence, turning briefly to each of our four Servicewide enforcement priorities.

Our first enforcement priority is to discourage and deter non-compliance, with emphasis on corrosive activity by corporations, high-income individuals, and other contributors to the tax gap.

- In 2004, audits of high-income taxpayers jumped 40 percent from the year before. We audited almost 200,000 high-income individuals last year – double the number from 2000.
- Overall, audits for individuals exceeded the one million mark last year, up from 618,000 four years earlier.
- In 2004, the number of audits of the largest businesses – those with assets of \$10 million or more – finally increased after years of decline.

In addition to traditional audits, the IRS also uses computer matching of Forms W-2 and 1099s in its Information Returns Program, or document matching as it is often called. This technique is very effective for verifying income items reported on individual returns against that reported by third parties, including wages, interest, dividends and miscellaneous payments. During FY 04, the IRS closed more than 3.7 million document matching cases and collected about \$2.7 billion as a result of these taxpayer contacts.

The centerpiece of our enforcement strategy is combating abusive tax shelters, both for corporations and high-income individuals. I will touch upon two important initiatives of the past twelve months.

We have continued a program of settlement offers for those who entered into abusive transactions in the past but would like to get their problems behind them. Last May, we made a settlement offer regarding the Son of Boss tax shelter, a particularly abusive

transaction used by wealthy individuals to eliminate taxes on large gains, often in the tens of millions of dollars. In this program, for the first time, the IRS required a total concession by the taxpayer of artificial losses claimed and, for most taxpayers, required a payment of penalties. I am pleased with the response to the offer. So far, \$3.2 billion in taxes, interest and penalties have been collected from the 1,165 taxpayers who are participating in the settlement initiative. The typical taxpayer payment was almost \$1 million, with 18 taxpayers paying more than \$20 million each and one paying over \$100 million. Processing of individual settlements continues.

Based on disclosures we have received from promoter investigations and from investor lists from Justice Department litigation, we have determined that just over 1,800 people participated in Son of Boss. When the project concludes in the coming months, we expect the collected figure should top \$3.5 billion.

In February 2005, we announced a second important settlement initiative – this one relating to a transaction that involved executive stock options. This abusive tax transaction involved the transfer of stock options or restricted stock to family-controlled entities. These deals were done for the personal benefit of executives, sometimes at the expense of public shareholders. This shelter was not just a matter of tax avoidance but, in some instances, raises basic questions about corporate governance. Again, the settlement offer is a tough one: full payment of the taxes plus a penalty.

A noteworthy point about the stock option settlement offer is that our actions in this matter were closely coordinated with and supported by the Securities and Exchange Commission and the Public Company Accounting Oversight Board.

Our settlement initiatives and increased audits have sent a signal to taxpayers: the playing field is no longer as lopsided as it once was. Non-compliant taxpayers might have to pay the entire tax, interest, and a stiff penalty. A taxpayer might have to wrestle with questions like "how much am I going to have to pay the lawyers and expert witnesses to litigate this thing?" Moreover, going to court is a public matter. Damage to one's reputation is a potential factor. Many wealthy individuals, otherwise seen as community leaders, may not want to be identified as paying less than their fair share in taxes.

Another example of cooperation in the battle against abusive shelters is in the international arena. A year ago, I announced the formation of what has come to be known as the Joint International Tax Shelter Information Centre. Since last Labor Day, we have had an operational task force of personnel from Australia, Canada, the United Kingdom, and the U.S. working together on-site here in Washington. We are exchanging information about specific abusive transactions. Results to date are promising. Thus far, we have uncovered a number of transactions which, but for the Centre, we would have unraveled only over a number of years, if ever. It makes sense that we continue to work with other countries because, in this increasingly global world, we are up against what is, in essence, a reinforcing commercial network of largely stateless accounting firms, law firms, investment banks, and brokerage houses.

We have also worked jointly with the Department of Justice to obtain civil injunctions against abusive tax scheme promoters and abusive return preparers. The Government

stepped up use of civil power in 2001 to prohibit promoters from selling illegal tax schemes on the Internet, at seminars or through other means. Currently the courts have issued permanent or preliminary injunctions against more than 100 abusive scheme promoters. They have issued injunctions against 17 abusive return preparers – all permanent injunctions. And an additional 49 suits have been filed by Justice seeking injunction action – 28 against scheme promoters and 21 against return preparers. Injunctions issued have involved schemes such as:

- Using abusive trusts to shift assets out of a taxpayer's name while retaining control
- Misusing "corporation sole" laws to establish phony religious organizations
- Using frivolous "Section 861" arguments to evade employment taxes
- Claiming personal housing and living expenses as business expenses
- Filing tax returns reporting "zero income"
- Misusing the Disabled Access Credit

The IRS has another 1,000 investigations ongoing for possible referral to DOJ; and individual examinations are being conducted on thousands of scheme participants. Most of the investigations and examinations are being conducted by the IRS Small Business/Self-Employed (SB/SE) Division.

Our second enforcement priority is to assure that attorneys, accountants, and other tax practitioners adhere to professional standards and follow the law.

Our system of tax administration depends upon the integrity of practitioners. Altogether, there are approximately 1.2 million tax practitioners and return preparers. The vast majority of practitioners are conscientious and honest, but even honest tax professionals suffered from the sad and steep erosion of ethics in recent years by being subjected to untoward competitive pressures. The tax shelter industry had a corrupting influence on our legal and accounting professions.

We have done quite a bit since March 2004 to restore faith in the work of tax professionals. We have strengthened regulations governing the standards of tax practice to discourage the manufacturing of bogus legal opinions on the validity of tax shelters. The Treasury and IRS standards set forth rules governing what does and does not qualify as an independent opinion about a tax shelter.

Last year, the government won a series of court opinions on privilege. The cases confirm that promoters who develop and market generic tax shelters can no longer protect the identity of their clients by hiding behind a false wall of privilege.

Abusive tax shelters often flourished because penalties were too small. Some blue chip tax professionals actually weighed potential fees from promoting shelters, but not following the law, against the risk of IRS detection and the size of our penalties. Clearly, the penalties were too low. They were no more than a speed bump on a single-minded road to professional riches.

But these speed bumps have become speed traps. Last fall, Congress enacted and the President signed into law the American Jobs Creation Act of 2004. The legislation both

created new penalties and increased existing penalties for those who make false statements or fail to properly disclose information on tax shelters. Under the new law, the IRS can now impose monetary penalties not just on tax professionals who violate standards, but also on their employers, firms, or other entities if those parties knew, or should have known, of the misconduct.

Our third enforcement objective is to detect and deter domestic and off-shore based criminal tax activity and related financial criminal activity.

Last year, the IRS referred more than 3,000 cases to the Justice Department for possible criminal prosecution, nearly a 20 percent jump over the previous year. We continue our active role in the President's Corporate Fraud Task Force. We are going after promoters of tax shelters – both civilly and, where warranted, criminally. This tactic is a departure from the past. Previously, during a criminal investigation, all civil activity came to a halt. The result was that our business units were reluctant to refer matters for criminal investigation lest they lose their traditional turf. But, we are now moving forward on parallel tracks with the Department of Justice. We have a number of important criminal investigations underway. The enforcement model is changing.

Our fourth enforcement priority is to discourage and deter noncompliance within tax-exempt and governmental entities, and misuse of such entities by third parties for tax avoidance purposes.

Consider, for example, tax-exempt credit-counseling agencies. These organizations are granted tax-exempt status because they are supposed to be educating and assisting people who have credit or cash flow problems. Unfortunately, too many of these organizations, instead, operate for the benefit of insiders or are improperly in league with profit-making companies. We are carefully scrutinizing these organizations. We currently have half the tax-exempt credit counseling industry – in terms of asset size under examination.

Some shelter promoters join with tax-exempt organizations to create abusive shelters. The organization receives a large fee from the taxpayer who is taking advantage of its tax-free status. If there are losses, the taxpayer writes them off. Meanwhile, profits from a related transaction are parked with the exempt organization which means the profits go untaxed. That is an unintended abuse of the tax exemption that our nation bestows upon charities.

It is heartening to see leading members of the non-profit community taking steps to address abuses. I particularly want to salute the Independent Sector -- which recently delivered a constructive report to this Committee. The report states that the "government should ensure effective enforcement of the law" and calls for tougher rules for charities and foundations. The report calls for stronger action by the IRS to hold accountable charities that do not supply accurate and timely public information. I encourage the accounting, legal, and business communities to be as enthusiastic about confronting abuses and the erosion of professional ethics as the non-profit community. An interesting point to note is that the report supports mandatory electronic filing of all tax returns for non-profits.

I also want to note that the Senate Finance Committee held a very productive and thoughtful hearing last week on issues involving charities. I appreciate the Committee's leadership in bringing these issues to the forefront. The threat to the integrity of our nation's charities is real and growing. At the IRS, we take it very seriously. We are augmenting our resources in the non-profit area. By the end of September, we will have increased the number of our personnel who audit tax-exempt organizations by over 30 percent from two years earlier. If we do not act expeditiously, there is a risk that Americans will lose faith in our nation's charitable organizations. If that happens, Americans will stop giving and those in need will suffer.

As we move forward with these priorities, we will leverage our success to achieve greater results within our FY 2006 budget request.

President's FY 2006 Budget Seeks Increase in Enforcement to Address Growing Tax Gap

The President's fiscal year 2006 budget requests \$10.679 billion for the IRS, a 4.3 percent increase over the fiscal year 2005 enacted level. This request represents a 1 percent decrease in Taxpayer Service and a 2 percent decrease in Business Systems Modernization, but an 8 percent increase in enforcement.

This budget includes \$265 million for initiatives aimed at enhancing the enforcement of the tax laws. This request is above the increases to fund the pay raise and other cost adjustments (\$182 million), for a total of \$446 million for new enforcement investments and cost increases. It is important Congress fully fund these cost increases and new enforcement investments. The President's budget proposal to fund them as contingent appropriations reflects the importance of this investment to the Administration.

We will use the additional funds for enforcement in several key ways to combat the tax gap. These investments will yield substantial results. IRS enforcement activities, coupled with late payments, recover about \$55 billion of the tax gap, leaving a *net* tax gap of between \$257 billion and \$298 billion.

Since 2001, the tax year covered by the NRP, we have taken a number of steps to bolster enforcement. We increased our enforcement revenues by nearly 28 percent from \$33.8 billion in 2001 to \$43.1 billion in 2004. Audits of high-income taxpayers — those earning \$100,000 or more — topped 195,000 in fiscal year 2004, which is more than double those conducted in 2001. Total audits of all taxpayers topped 1 million last year — a 37 percent jump from 2001.

We are ramping up our audits on high-income taxpayers and corporations, focusing more attention on abusive shelters and launching more criminal investigations. As discussed earlier, we recently announced that we have, so far, collected \$3.2 billion in the settlement initiative for Son of Boss, a particularly abusive tax shelter.

The IRS yields more than four dollars in direct revenue from its enforcement efforts for every dollar invested in its total budget. In FY 2004, we brought in a record \$43.1 billion in enforcement revenue — an increase of \$5.5 billion from the year before, or 15 percent. Beyond the direct revenues generated by increasing audits, collection, and criminal

investigations, our enforcement efforts have a deterrent effect on those who might be tempted to skirt their tax obligations.

The nearly 8 percent increase for enforcement activities in the Administration's 2006 IRS budget request will increase audits of corporations and high-income individuals as well as expand collection and criminal investigation efforts.

Program Performance

The IRS expects to achieve the following levels of performance after attaining full performance of the requested FY 2006 initiatives:

- Increase in field examinations for high-income individuals with complex returns; significant increase in collection processed; and closing of over 40 percent more delinquent balance-due accounts in FY 2008 than in FY 2004;
- Nearly double the audit coverage for individuals with income between \$250,000 and \$1 million, from 1.5 percent in FY 2004 to 2.8 percent in FY 2008;
- Auditing 15 percent more individuals earning above \$1 million, from 3.4 percent projected for FY 2004 to 3.9 percent in FY 2008;
- Significantly more collection cases processed, closing 50 percent more delinquent accounts in FY 2008 than FY 2004;
- Double the audit coverage for mid-size corporations, from 7.6 percent in FY 2004 to 16 percent in FY 2008; and
- Increased efforts to deter abusive tax shelters among corporations

Conclusion

On the whole, our system of self-assessment of tax liabilities appears to be working nearly as well as it did in 1988. However, the new compliance data suggest that some types of income may be less accurately reported now than in the past. It is clear that consistent efforts to keep the complexity and unnecessary burden of the tax system to a minimum, to provide the excellent service that the taxpaying public deserves, and to maintain a strong and well-targeted enforcement presence are necessary to improve compliance rates.

While IRS enforcement efforts have lagged in recent years, that is now changing. We will continue to improve service and respect taxpayer rights. But we will also enforce the law. We won't relax until taxpayers who are unwilling to pay their fair share see that that is not a worthwhile course to follow. As Chairman Grassley has said, "taxpayers have to pay what they owe, not a penny more nor a penny less."

Thank you very much for the opportunity to discuss the tax gap and our efforts to combat it. I am happy to take your questions.

**Questions for the Record for
The Honorable Mark Everson
April 14, 2005**

From Senator Santorum:

1) For many middle-income families, the best opportunity for savings outside an employer-based plan arises when they are refunded their overpayment of federal income taxes. Each year, roughly 100 million American taxpayers put themselves in a position to receive federal income tax refunds averaging about \$2,000 each.

The federal income tax system does not currently provide the option of bifurcating a refund. Taxpayers, for example, cannot direct a portion of the refund to one or more accounts for longer-term saving while receiving the balance to meet more immediate spending needs.

The Administration has supported divisible refunds in each of its last two budget documents and split refunds are scheduled to be ready for the 2007 tax season, what are the plans and status for implementation?

ANSWER

I agree that the split refund initiative is a great opportunity for many Americans to save. We are working toward making this program available as quickly as possible but unfortunately cannot implement it until the 2007 filing season (corresponding to tax year 2006). I have instructed my staff to form an implementation committee to resolve a number of complex information systems and administrative issues to ensure a successful program rollout.

The committee will address a variety of issues, such as adding a new schedule to the tax forms, programming our computers, and testing the changes. In addition, we must work closely with the Treasury Department's Financial Management Service, which is responsible for disbursing tax refunds, to ensure both agencies' systems changes are compatible so refunds will be deposited to the proper accounts. The committee faces a rigorous agenda to resolve these issues and meet the 2007 filing season deadline.

From Senator Baucus:

IRS Budget and Cuts in Taxpayer Service

1. In light of the \$353 billion tax gap, please explain how the IRS's proposed budget will close the tax gap?

The President's Fiscal Year (FY) 2006 budget requests \$10.7 billion for the IRS, a 4.3 percent increase over the FY 2005 enacted level. This request represents a one percent decrease in Taxpayer Service, a two percent

decrease in Business Systems Modernization (BSM), and a nearly eight percent increase in enforcement. Our enforcement efforts are designed to increase compliance and reduce the tax gap.

This budget includes \$265 million for initiatives aimed at enhancing the enforcement of tax laws. This request is above the increases to fund the pay raise and other cost adjustments (\$182 million), for a total of \$446 million for new enforcement investments and cost increases. It is important that Congress fully fund these cost increases and new enforcement investments. The President's budget proposal to fund them through an adjustment to the discretionary caps reflects the importance of this investment to the Administration.

Combating tax non-compliance is a top priority for the IRS. Americans deserve to feel confident that when they pay their taxes, their neighbors and competitors are doing the same. If approved by Congress, we will use the additional funds for enforcement in several key ways to address the tax gap. The additional investments will yield substantial results. IRS enforcement activities, coupled with late payments, recover about \$55 billion of the tax gap, leaving a *net* tax gap of between \$257 billion and \$298 billion.

We increased our enforcement revenues by nearly 28 percent from \$33.8 billion in 2001 to \$43.1 billion in 2004. We are ramping up our audits on high-income taxpayers and corporations, focusing more attention on abusive shelters and launching more criminal investigations. We have collected \$3.7 billion in the settlement initiative for the Son of Boss transaction, a particularly abusive tax shelter in which many high-income individual taxpayers participated. Audits of high-income taxpayers – those earning \$100,000 or more – topped 195,000 in fiscal year 2004, which is more than double the number conducted in 2001. Total audits of all taxpayers topped one million last year – a 37 percent jump from 2001.

2. I am very concerned about the prospect of closing up to 100 of the Taxpayer Assistance Centers (TACs). These walk-in sites provide a face-to-face lifeline between the IRS and taxpayers.

ANSWER

The way taxpayers pay their taxes and access IRS information is changing. In recent years, the use of IRS.gov and e-filing has increased rapidly while paper filing and visits to walk-in Taxpayer Assistance Centers (TACs) have declined. This shift presents an opportunity to adjust the way the IRS serves taxpayers and to focus on the most efficient services.

We announced on May 27, 2005, that we plan to close 68 TAC sites as part of our continuing efforts to create efficiencies, modernize operations, and reduce costs, while at the same time maintaining our commitment to taxpayer service.

While TACs offer personal, face-to-face assistance, they are by far the most expensive means for the IRS to deliver service. Changes in customer expectations, coupled with a one percent reduction in taxpayer services in our proposed FY 2006 budget, required us to conduct a critical, but objective, analysis of walk-in assistance. Adjusting TAC sites to reflect current traffic volumes and local customer need will result in staffing and building cost savings of \$45 million to \$55 million during FY 2006, with minimal adverse impact on customers.

Furthermore, the Government Accountability Office (GAO) has recognized the significant progress the IRS has made in improving service to taxpayers. A 2004 GAO report noted that “the use of IRS’s walk-in assistance sites is declining. The improvements in telephone service, increased Web site use, and the availability of volunteer sites raise a question about whether IRS should continue to operate as many walk-in sites. Reconsidering the level and types of service is an option – but not a recommendation – to be considered by IRS management and the Congress.” (See “Internal Revenue Service: Assessment of Fiscal Year 2005 Budget Request and 2004 Filing Season Performance” (GAO-04-560T).)

- a. What criteria did you use to determine which TACs to close?

ANSWER

Our challenge was identifying the most appropriate TACs for closure – those where the closure would have the least impact on taxpayers and our employees. This was a data-driven decision based on a business model with five neutral criteria (a copy of the criteria is attached as Appendix 1):

- Demographics with 12 subcomponents;
- Geography with 4 subcomponents;
- Workload with 3 subcomponents;
- Facilities cost with 6 subcomponents; and
- Employee cost with 8 subcomponents.

We populated the business model with FY 2004 data and the most recent census information and assigned weights to each criterion. Our weighting was customer-centric and based on internal and external stakeholder input. We assigned nearly two-thirds of the weighting to customer considerations – workload, geography, and demographics – and only one-third of the weighting to employee and facilities costs.

We applied three business rules to the weighted model for fairness:

- 1) A significant office presence will remain in the top 35 metropolitan areas based on the latest census population information.

- 2) No state would lose more than half of its TACs, nor have a TAC closed that accounted for more than 40 percent of the customers serviced in that state.
- 3) Alaska and Hawaii would not have any TACs closed as they are remote locations away from the continental U.S.

The data, weights, and rules produced a ranked listing of TACs. In general, we are retaining a TAC footprint in high traffic areas with the greatest need and rural areas with limited accessibility to other offices.

- b. How many of the Taxpayer Assistance Centers are you planning to shut down in the State of Montana?

ANSWER

We are planning to shut down a total of three TACs in Montana. We will shut one TAC in Bozeman, one in Great Falls, and one in Missoula.

- c. Please provide a list of all TACs on the closure list.

ANSWER

Closing Taxpayer Assistance Centers		
Address	City	State
3090 Hwy. 95	Bullhead City	AZ
2450 S. 4th Ave.	Yuma	AZ
2400 W. Dunlap	Phoenix NW	AZ
2610 Sweetwater Ave.	Lake Havasu City	AZ
5104 N. Blythe Ave.	Fresno	CA
1 Civic Center Dr.	San Marcos	CA
1332 Anacapa St.	Santa Barbara	CA
2345 S. Second St.	El Centro	CA
751 Daily Dr.	Camarillo	CA
5300 California Ave.	Bakersfield	CA
777 Sonoma Ave.	Santa Rosa	CA
2864 S. Circle Dr.	Colorado Springs	CO
150 Court St.	New Haven	CT
135 High St.	Hartford	CT
9450 Koger Blvd.	Saint Petersburg	FL
7850 S.W. Sixth Ct.	Plantation/Fort Lauderdale	FL
2891 Center Pointe Dr.	Fort Myers	FL
2888 Woodcock Blvd.	Atlanta (Koger)	GA

Closing Taxpayer Assistance Centers		
Address	City	State
1820 East 17th St.	Idaho Falls	ID
611 Wilson Ave.	Pocatello	ID
2001 Butterfield Rd.	Downers Grove	IL
1415 Director's Row	Fort Wayne	IN
1250 Hancock St.	Quincy	MA
78 Center St.	Pittsfield	MA
247 Stevens St.	Hyannis	MA
881 Main St.	Fitchburg	MA
11510 Georgia Ave.	Wheaton	MD
212 W. Main St.	Salisbury	MD
201 Thomas- Johnson Dr.	Frederick	MD
190 Admiral Cochran Dr.	Annapolis	MD
68 Sewall St.	Augusta	ME
220 Maine Mall Rd.	South Portland	ME
250 Marquette Ave.	Minneapolis	MN
3333 S. National Ave.	Springfield	MO
2681 Palmer St.	Missoula	MT
11 5th St. N.	Great Falls	MT
220 W. Lamme St.	Bozeman	MT
3904 Oleander Dr.	Wilmington	NC
320 Federal Place	Greensboro	NC
80 Daniel St.	Portsmouth	NH
196 Main St.	Keene	NH
1719-C Rte. 10	Parsippany	NJ
1 Kalisa Way	Paramus	NJ
165 Passaic Ave.	Fairfield	NJ
100 Dey Place	Edison	NJ
200 S. Virginia St.	Reno	NV
153 Sawkill Rd.	Kingston	NY
Clinton Ave. & N. Pearl St.	Albany	NY
1200 Waters Place	Bronx	NY
290 Broadway	New York (Downtown)	NY
1180 Veterans Memorial Hwy.	Hauppauge	NY
625 Fulton St.	Brooklyn	NY
242 W. Nyack Rd.	West Nyack	NY
162 W. Chestnut St.	Washington	PA

Closing Taxpayer Assistance Centers		
Address	City	State
2801 Eastern Boulevard	York	PA
1 Poston Rd.	Charleston	SC
825 E. Rundberg Ln.	Austin	TX
1100 Commerce	Dallas	TX
173 E. 100 North	Provo	UT
903 Gateway Blvd.	Hampton	VA
5205 Leesburg Pike	Bailey's Crossroads	VA
East Ridge Prof Bldg Route 4 Woodstock Ave.	Rutland	VT
1222 Putney Rd.	Brattleboro	VT
9833 Poplars Ave.	Silverdale	WA
1920 Libal St.	Green Bay	WI
545 Zor Shrine Pl.	Madison	WI
2403 Folsom St.,	Eau Claire	WI
1949 Sugarland Dr.	Sheridan	WY

- d. When are you going to shut down the TACs?

ANSWER

We anticipate beginning an orderly shutdown later this year and will give local taxpayers advance notice through office signage, the media, our local phone number message and our website at IRS.gov.

- e. Given that access to taxpayer service has an obvious impact on voluntary compliance, what will the impact be on compliance when you shut down the TACs?

ANSWER

TAC closures will have a minimal impact on voluntary compliance because all of the services currently available for taxpayers will still be in place. Taxpayers can call, write, work with volunteer taxpayer assistance services, utilize the Internet services, and, if they find it necessary, walk in to one of the 332 remaining TACs for face-to-face assistance.

- f. How are you going to fill in the void created by closing these locations?

ANSWER

We will continue to fully support both the remaining 332 TACs and all alternative means of obtaining taxpayer services. Many taxpayers have already migrated to more convenient, available-on-demand services,

such as IRS.gov for tax forms and information, for free e-filing through Free File, and to check the status of their refunds. More taxpayers – 44 percent more this year – are turning to free online e-filing.

Many senior citizens and families qualifying for EITC already use the free volunteer tax preparation help in their communities. Between 1999 and 2004, the number of returns filed through these volunteer sites increased 88 percent, reaching 976,000 Volunteer Income Tax Assistance (VITA) returns and 958,000 Tax Counseling for the Elderly (TCE) returns in FY 2004.

Toll-free telephone help is the convenient choice for many, fielding 77.5 million calls last year. In-person phone help will be available 12 hours a day and automated phone help is available nearly round-the-clock, making this assistance available when taxpayers want it.

3. At the Senate Appropriations' hearing, you seemed to justify some of the cuts in Taxpayer Service by shifting reliance to volunteer initiatives, like VITA. Yet, Mr. George of TIGTA recently reported that there was a 100% error rate in a sample of returns prepared by volunteers. Please explain why you are shifting a burden that is inherently the IRS's to a volunteer effort?

ANSWER

The shift to volunteer initiatives reflects a trend in taxpayer preferences toward lower-cost, more efficient means of obtaining service. Because of the benefits both to taxpayers and the IRS, we fully support this trend, although we share your concern with the accuracy of returns prepared by volunteers.

We anticipate that the results of the Treasury Inspector General for Tax Administration's (TIGTA) 2005 audit of VITA sites will indicate progress over the findings of its 2004 review of return preparation at VITA sites. There is still much room for improvement in the program, though, as evidenced by TIGTA's 2004 report, which served as a catalyst for significant changes and improvements in the volunteer programs. While the scenarios used by TIGTA's auditors last year did not represent the taxpayer filing characteristics of the vast majority of volunteer-prepared returns, TIGTA did identify a number of program needs. Below is a description of the needs identified by TIGTA, the actions taken by the IRS to address them, and preliminary results.

Need: Ensure volunteers are qualified, trained, and certified.

Action: All volunteers who provide tax law assistance must now pass an IRS test or a partner-prepared test approved by the IRS in order to be certified. We offered a new on-line training and certification process this year, already used by 10,000 volunteers.

Need: Volunteers need to obtain sufficient information to correctly apply the law.

Action: IRS developed a three-pronged process of structured fact gathering, including (1) use of a standardized intake sheet, (2) interview process using reference materials, and (3) use of a structured quality review process.

Need: Ensure returns prepared by volunteers go through quality review.

Action: The quality-review process has been mandated for all volunteer sites. All sites are required to conclude each return preparation with a structured quality review to ensure accurate application of tax law.

Need: Ensure VITA site information is current and accurate.

Action: Timely and accurate input of site information into the database used by toll-free assistors is required of all field offices. Verifying individual site information will remain a formal requirement in Stakeholder Partnerships, Education and Communication (SPEC) filing season readiness certification and in site reviews.

Need: Volunteer training does not stress the use of the probe and response guide.

Action: The use of reference materials has been integrated into all aspects of volunteer training and site operation including site reviews.

As previously stated, we must continue to make significant improvements in the accuracy of volunteer-prepared returns. TIGTA has indicated that SPEC is focused on the right issues and has supplied appropriate support resources and management attention to quality improvement. Consistent adherence to these steps will take time, given the diversity of program participants.

The SPEC business model is based on expanding access to tax preparation services to low-income and other underserved taxpayers through external partner involvement and investment. Partners join volunteer return preparation initiatives because they provide tangible benefits for their constituents. The challenge is to balance IRS and external partner resource investment so that programs do not just increase service access, but are sustained over time at the highest levels of quality for return-preparation services.

4. It is also my understanding that the IRS is proposing to eliminate electronic tax law assistance over the internet and is planning reductions in hours that telephone assistance would be available. Together with the TACs, these are all important sources of information and service to taxpayers. What is your business case/justification for this "triple whammy" to taxpayer service and what is the cost in terms of compliance? Please explain.

ANSWER

We are aware of the need to operate efficiently, consolidate operations and drive down costs wherever we can. However, these steps must be taken in a manner that will not compromise the progress we have made in taxpayer service over the past several years. In today's fiscal environment, we recognize that resources are tight. Nevertheless, we are determined to do all we can to improve service and modernize the IRS. We are working aggressively to improve productivity and achieve cost savings, which we will apply to other priority areas, such as enforcement. The FY 2006 budget reduction initiatives focus mainly on targeted reductions in assistance, outreach, and processing program areas. Reductions and cost savings will also be achieved through improved efficiencies and reengineering of business processes in key program areas in accounts management, submission processing, media and publications, field assistance, and outreach and education. Approximately 65 percent of these reductions will occur in assistance, 20 percent in outreach and 15 percent in processing. We will minimize the impact on taxpayers by continuing to provide alternative means to obtain service, wherever possible. Our budget estimates that all these taxpayer service reengineering initiatives will yield \$134 million in savings that we can reinvest in other program areas. The reductions represent a balanced approach in program delivery and service to taxpayers to enable them to meet their tax obligations. The three specific reductions you cite are examples of where the impact on taxpayers can be minimized or where alternative services are readily available.

Electronic Tax Law assistance (ETLA) is an e-mail-based service that has had very limited use over the last four years. ETLA was not designed to be a primary service delivery channel for large numbers of taxpayers. Our primary method of assisting customers with tax law questions is through the Toll-Free telephone system. Approximately 110,000 ETLA inquiries were received in FY 2004. This compares with over 8.6 million tax law inquiries handled via our Toll-Free lines. During the past five years, there have been heavy investments in virtually every aspect of the Toll-Free service. Each year substantial progress is made toward achieving the goal of providing "world class" telephone service. Allocating appropriate levels of staffing to provide e-mail tax law assistance to a large volume of e-mail inquiries diminishes our staff available to provide telephone service. We also offer alternative Internet services on IRS.gov, such as our "frequently asked questions," that provide a readily available non-labor-intensive source of Web-based tax law assistance,

as well as IRS publications that can be viewed on-line or downloaded on virtually every tax law subject.

Two issues are driving the change for Toll-Free hours of service: customer demand and efficiency. Call volume is low during the late evening and early morning; 93 percent of current IRS callers call during the 12 hours the IRS will retain Toll-Free service. Maintaining staffing in all skill categories during hours when demand is low leads to long periods of less productive “available time” (periods when assistors are waiting for the next call). We will save resources because we can answer nearly the same number of calls during these shorter hours without hiring as many employees. There will be minimal impact on the level of service. By eliminating service during early morning and late evening hours – when customer demand dips to a level that cannot be staffed efficiently – employees will still be able to provide the same level of service to the vast majority of our customers who call during the “core” hours. The IRS will modify its tax form instructions, and publications to reflect the change before the next filing season.

We have already detailed above our alternatives for TAC walk-in service. We do not anticipate any impact on taxpayer compliance due to these modest changes in taxpayer service. Those taxpayers who want to comply will be able to receive the assistance they need and deserve from the IRS.

5. The IRS has announced its intentions to discontinue the popular and successful Tele-file program based on the notion that is too expensive. However, over 4 million individual and 1 million employment tax returns were filed using Tele-file last year. Please provide the IRS's business case/justification for shutting down Tele-file.

ANSWER

The IRS will discontinue the TeleFile program in Fiscal Year 2005. Because of increasing costs of maintaining the TeleFile infrastructure, declining use by taxpayers, and the significant growth of other, more reliable and efficient filing alternatives, such as Free File, IRS will discontinue the TeleFile program by the end of fiscal year 2005.

- TeleFile allows the telephone filing of Forms 1040EZ (and some state individual tax returns), Forms 941 (Employer's Quarterly Federal Tax Return) and Forms 4868 (Application for Automatic Extension of Time to File U.S. Individual Income Tax Return).
- TeleFile was initially rolled out to a segment of 1040EZ filers in 1992 as the IRS's first non-paper e-file option.
- TeleFile has been available nationally for EZ filers since 1997. Form 941 was added in 1998 and Form 4868 in 2001. It is free to the user, but it lacks basic support features like help or printing capabilities.

Since 1999, overall TeleFile use by EZ filers has steadily declined. TeleFile is responsible for only seven percent of all Forms 4868, and less than five percent of all Forms 941. Although usage of TeleFile for filing Forms 941 and 4868 has grown slightly, the overall TeleFile volume has declined.

Additional factors also support terminating TeleFile:

- increasing projected costs to operate and maintain the system, which are unaffected by changes in TeleFile usage;
- growth of other electronic filing alternatives (specifically Free File); and
- sunset of state TeleFile programs.

Number of TeleFile users (2004):

- four million EZ filers (as of May 27, 2005, 3.3 million used TeleFile during the 2005 filing season, down 13 percent from the same time in 2004);
- less than one million employment tax return Form 941 filers; and
- fewer than six hundred thousand extension Form 4868 filers.

Other e-file usage continues to grow. Last year individuals filed over 61 million electronic returns. This year, over half of all individual returns have been filed electronically.

- As of May 27, 2005, of the more than 124 million total individual returns filed, 66.6 million returns were filed electronically.
- The number of online returns is 16.8 million, a 17.2 percent increase over the same time last year.
- Through April 28, 2005, five million Free File returns have been accepted, an increase of 47 percent from last year.

6. It is my understanding that the IRS could actually retain Tele-file and achieve costs savings by eliminating the "excess capacity" and unneeded circuits. Has the IRS considered whether it has "excess capacity" and if some of the circuits and sites could be shut down? Please explain.

ANSWER

The IRS constantly monitors processing capacity requirements for the TeleFile system. The IRS estimates that there is approximately 20 percent excess capacity on the TeleFile system. However, this excess capacity alone does not permit shutting down one of the three sites without increasing the risk of reducing service and increasing costs. Shutting down circuits does not provide significant savings because it only reduces fixed costs that are already low.

This April, TeleFile processed approximately 974,000 calls during its peak day. During the peak hour of that day, the system processed approximately 78,000 calls. Sudden outages can happen any time. For example, this year, one of the sites had a phone outage (all phones) that required approximately three hours to resolve. Because of the fault-tolerant design, the system was able to

handle all incoming calls during the outage. The system utilized approximately 80 percent of its total capacity during this year's peak processing period.

National Research Project (NRP) Tax Gap Study

1. Given that the results of the NRP are preliminary and that it will be years before the IRS gathers new research on the numerous other components of the tax gap, how does the IRS plan to use the results to direct IRS resources?

ANSWER

The NRP-based tax gap estimates released at the end of March are preliminary because additional data and analyses are needed to supplement the raw NRP results, much as was done for previous compliance studies. The NRP data for individuals are essentially complete; the IRS is already using these data to develop new formulas to select returns for audit and will use those formulas in the next filing season. The IRS' preliminary analysis suggests that individual income tax compliance has not changed dramatically since 1988, so the IRS is not likely to change resource allocation substantially in the near future as a result of the study. However, as the IRS conducts more detailed analysis, there may be instances where resource allocation changes are called for.

2. Given the limited scope of this study, how will we be able to accurately estimate the tax gap?

ANSWER

The most recent tax gap estimates released at the end of March fell into three categories: (1) actual amounts or those updated in the recent NRP study; (2) reasonable estimates; and (3) older, weaker estimates that rely on projections based on research that was conducted for tax years 1988 or earlier. The first category (actual or recently completed figures) accounts for about two-thirds of the estimated tax gap. IRS will work on updating the other components over the next few years. Until the other components of the tax gap are updated, the IRS will have to continue to use projections based on this older, weaker data as placeholders.

3. In light of the fact that the data is preliminary and incomplete, how will the IRS translate the results of the study into specific actions that will close the gap?

ANSWER

As indicated in the answer to question 1, the NRP data are essentially complete. Estimates of the tax gap based on the NRP and other data will become progressively more detailed and accurate over the course of this year, and these estimates will feed into resource allocation decisions. Moreover, IRS is already using the NRP data to update workload selection formulas, which are used to help select returns for audit.

4. Can you give us more detail behind the estimated results? For example, you estimate that \$11-\$14 billion of the annual tax gap results from misstatements of credits. Please provide more detail with respect to that estimate?

ANSWER

Given the very preliminary nature of the analysis so far, we have much less confidence in detailed estimates of specific tax return line items than in the overall tax gap estimate. Once the estimates are finalized, we will be in a better position to provide detail on the portion of the tax gap that results from misstatements of credits and other specific questions.

5. The IRS claims that nonfilers make up 10 percent of the tax gap. However, the IRS has not researched nonfilers to accurately estimate the scope of the nonfiler component of the Tax Gap. Does the IRS plan to research nonfilers? Please explain.

ANSWER

The estimate of the nonfiling gap included in the March release was based on a very detailed study of individual income tax nonfilers for Tax Year 1988. That estimate was published in the Service's 1996 report on the individual income tax gap. We are in the process of updating that estimate so it will be more comparable to the recent data on reporting compliance we obtained from the NRP. The IRS also has an estimate of the estate tax nonfiler gap based on 1992 data, which is reflected in the March release. However, the IRS does not currently have estimates of the nonfiling gap for corporation income tax, employment taxes, or excise taxes. Those components are particularly difficult to estimate, but they are likely to be relatively small in magnitude.

6. What are your plans for conducting studies of other portions of the tax gap? When do you expect to begin these studies, and when will we have results?

ANSWER

The next reporting compliance study conducted by the NRP will focus on flow-through entities (beginning with S-Corporations), and those examinations are scheduled to begin later this year. Because of their complexity, those examinations are likely to stretch over many months. The IRS will also work diligently on updating other components of the tax gap using the results of regular enforcement programs and other data.

7. What is the IRS's long-term strategy to close the tax gap? Does the IRS intend to use the results of tax gap studies for long-term strategy? Please explain.

ANSWER

The IRS has been working within the contours of the current system to narrow the tax gap under current law. The IRS pursues a balanced strategy for reducing the tax gap associated with *past* tax years (primarily through

enforcement) as well as the tax gap associated with *future* years (primarily through taxpayer service and the deterrent effect of enforcement). It is unrealistic to believe that the tax gap can be entirely eliminated, since to do so would require Draconian steps, but the IRS will strive to make it as small as possible given resource constraints. The tax gap studies we undertake help us to understand the size and nature of the problem. Although it would be inappropriate to allocate our enforcement resources in proportion to the size of the tax gap in various components of the population, having estimates of the magnitudes of the various components of the gap does help us to make strategic decisions about areas of focus and prioritize research efforts. That research ranges from finding ways to make existing IRS programs (both enforcement and non-enforcement programs) more cost-effective to identifying new (better) ways of reducing noncompliance.

8. To close the tax gap, we need to understand why taxpayers do not comply.
 - a. What research has the IRS conducted to identify key factors of taxpayer noncompliance?

ANSWER

The IRS has conducted some statistical research aimed at estimating the extent to which various IRS activities and other factors influence the compliance of the overall taxpayer population. Our findings, which are generally consistent with those of outside researchers, indicate that there are many determinants of voluntary compliance. In particular, there is strong evidence that IRS enforcement efforts induce greater compliance in the overall population (e.g., through deterrence).

The NRP reporting compliance study of individual taxpayers (like the compliance studies of the past) included a requirement that the auditors indicate the reasons for noncompliance they detected. However, it is extremely difficult for auditors to discern taxpayers' motivations, particularly related to possible willful noncompliance. These reason codes, therefore, will likely give some insight as to the mechanics of the taxpayer's errors (e.g., lack of proper documentation for a claimed deduction), but may not be conclusive about the motivation underlying the error. We expect future analysis of the data on individual reporting compliance from NRP to focus on understanding the causes of the errors detected.

In addition, the IRS has sponsored several large taxpayer opinion surveys over the years, which have provided significant insight into the trends in taxpayer thinking, and some of the questions in these surveys have focused on compliance issues. However, just as it is difficult for auditors to discern taxpayers' motivations, it is also very hard to use opinion surveys for that purpose. Taxpayers may not be completely

honest about any willful noncompliance on their part, much less about what would cause them to be fully compliant in the future. Indeed, taxpayers may not even be cognizant of the extent to which various factors influence their compliance decisions.

- b. Has the IRS pursued research to determine the relationship between IRS service levels and taxpayer compliance? If not, why not?

ANSWER

The IRS has conducted some statistical research to explore the impact of several IRS service activities, and several other studies have attempted to identify whether the Toll-Free telephone assistance program promotes greater voluntary compliance. However, it has been much harder to detect a significant impact of service activities on overall taxpayer compliance than it has been to detect such an effect with respect to specific enforcement activities. This may be due to significant data and estimating difficulties rather than to a lack of such an impact entirely, and we recognize that more research is needed.

Reducing the Employment Tax Gap

According to the new IRS National Research Program (NRP) report, the annual nonfiler and underreporter tax gap for employment taxes is between \$66 and \$71 billion per year. We understand that the bulk of that is in Social Security employment taxes -- FICA and SECA. The remainder is mostly Medicare employment taxes.

1. If sufficient resources were available to the IRS, would it be achievable to reduce the Social Security employment tax gap by one-fourth or one half-over over a ten horizon -- or longer if necessary? If not, why not? Please explain.

ANSWER:

Of the \$66-71 billion in underreported employment taxes reported in the preliminary National Research Program (NRP) report, about 78 percent relates to self-employment (SECA) tax alone. Hence, the noncompliance the IRS must deal with is not Social Security tax per se, but the noncompliance of taxpayers with self-employment income (e.g., sole proprietors, partners, and members of limited liability corporations). Reducing the SECA tax gap can be accomplished primarily by reducing the underreporting of business income.

The IRS expends substantial resources -- approximately 60 percent of individual field examinations -- addressing underreported business income by sole proprietors. Since 2002, Schedule C audits have increased 36 percent, and audit coverage has increased from 1.64 percent to 2.07 percent. Recognizing that over 20 percent of the estimated employment tax gap comes from FICA/FUTA noncompliance, the IRS also devotes approximately 300 employees to, and conducts 15,000 audits in, that area. In addition, the IRS

devotes resources to outreach and education programs for small businesses to reduce burden and to foster compliance.

Although application of additional resources to the problem would most surely reduce the gap in this area, making precise estimates of how much and by when is not possible. The IRS will, however, continue to devote substantial resources to this component of the tax gap.

2. What, if any, are the IRS's specific plans to reduce the Social Security employment tax gap?

ANSWER:

The IRS is pursuing an Employment Tax Strategy to address the employment tax gap. As part of this strategy, we will be expanding our use of internal data sources to identify workload that has the greatest impact on the employment tax gap. For example, we plan to use Currency Banking Retrieval System (CBRS) data on cash transactions as part of our case building process to identify taxpayers who deliberately conduct business in cash and may be attempting to avoid taxes altogether. We also are using internal data sources to select nonfiler cases that involve a pattern of consistent noncompliance over two or more years.

To combat the concern that some S corporations may be underreporting their officer compensation, we are applying enforcement resources to 1120S (Subchapter S corporations) and officer compensation issues. Most closely-held businesses report payment of a reasonable wage to their shareholders who perform services as employees of the corporation. However, a significant number fail to properly establish reasonable compensation for any shareholder actively operating a corporate business. Because a shareholder officer in an S corporation owes FICA tax on his/her compensation for services, the issue is determining reasonable compensation for services for application of the FICA tax.

It also is not uncommon for employment tax issues to surface in conjunction with income tax audits, and we plan to continue to devote a portion of our employment tax resources to address these issues. The related noncompliance involves a wide range of employment tax issues including, but not limited to, the taxation of fringe benefits, determination of an employee versus an independent contractor, and backup withholding.

Voluntary programs that impact the tax gap and change long-term taxpayer reporting patterns also are an important part of our employment tax strategy. For example, in May 2003, the IRS released a new voluntary agreement for the Gaming Industry, Revenue Procedure 2003-35, encouraging nationwide consistency for tip reporting for this industry. This agreement allows a gaming industry employer, its employees, and the IRS to work together to

determine tip rates for tipped employees in specified occupational categories, prescribes a threshold level of participation by the employer's employees, and reduces both compliance burden for the employer and enforcement burden for the IRS. The American Gaming Association is an active partner in the national rollout of the gaming agreement and was instrumental in drawing up the agreement. Nevada and New Jersey have successfully signed up all of their casino properties under the new gaming voluntary compliance agreement (over 250 casinos). As a result, reported employment tip wages from these two states are expected to increase by over \$1 billion annually, with minimal use of IRS resources. The IRS has expanded this initiative to all states that currently have gaming.

The IRS also is focusing resources on noncompliance among Federal, state and local government entities including:

- a. Establishment of a dedicated Federal Agency tax compliance enforcement group during FY 2005 in the IRS' Tax Exempt and Government Entities Division;
 - b. Expansion of compliance coverage of Federal, state and local entities beginning in FY 2005; and
 - c. Initiation of an examination program during FY 2005 for state and local governments with payrolls in excess of \$40 million.
3. Do you think that expanding information reporting and/or withholding requirements would help close the Social Security employment tax gap?

ANSWER

Based on years of research on compliance behavior, via the Taxpayer Compliance Measurement Program (TCMP) and the successor National Research Program (NRP), the IRS has found that taxpayers are most compliant when there is third party information reporting on specific items to both the taxpayer and the IRS and when there is withholding. In fact, the rate of misreporting under this scenario of combined withholding and reporting is less than two percent of the amount that should be reported (such as for wages and salaries). Compliance is slightly lower when there is just the information reporting – the misreporting percentage is less than ten percent. However, compliance drops off dramatically, with misreporting percentages of 30 percent or higher, when there is neither information reporting nor withholding. The benefits that would come from expanded withholding and information reporting need to be balanced against the increased cost that such expansion could involve.

4. Do you think that better coordination between the IRS and the state licensing agencies is a viable way to identify potential Social Security employment tax offenders? Does the IRS have any efforts underway at this time?

ANSWER

Better coordination with states, local governments, and other federal agencies is one of the IRS's continuing goals and we are always looking for new opportunities to work together to solve mutual compliance issues and problems. For example, many locally- or state-issued licenses require a statement by the applicant estimating his or her annual gross receipts. Contractors' licenses often are issued in classes based on the dollar threshold of construction projects. However, our efforts to directly use state licensing data have been limited. While those databases can clearly help identify underreporters and non-filers, the data matching and data perfection processes are quite labor intensive.

We already have a number of other related Fed/State initiatives in place or under development that may help to reduce the employment tax gap:

Leveraging State Audit Results

The IRS recently rolled out a new national initiative to use audit reports made available by state revenue agencies and state unemployment tax agencies more effectively. State audit findings, that earnings have been understated or that workers have been misclassified as independent contractors, will be used to determine whether additional Federal employment taxes are due and to take appropriate action to collect any unpaid FICA and other taxes. This initiative will significantly enhance the audit coverage IRS could attain through its own resources.

Leveraging State Non-Filer Activity

Most state tax agencies have statutory "license clearance authority." Self-employed individuals and other businesses are subject to revocation, suspension, or denial of business licenses or sales tax permits if they do not file and pay their state taxes. This is a powerful compliance tool that is effective in securing unfiled state tax returns. The IRS is currently testing a "reverse filing match" initiative to identify those taxpayers who have filed a state tax return but not the corresponding Federal return. Preliminary IRS testing of more than 300 delinquent state returns has shown very promising results.

Questionable Employer Tax Practices Initiative

The IRS is developing a proposal for a national strategic employment tax collaboration with the U.S. Department of Labor, state unemployment agencies, and state revenue agencies. The intent of the proposal is to create a coordinated approach to planning, data sharing, compliance activities, employer education, and media engagement on compliance issues such as

misclassified workers, misclassification of officer compensation, abusive employee leasing practices, non-filing, and non-payment. We anticipate that this approach could significantly leverage the resources of the IRS and the state agencies in addressing both the Federal and state employment tax gaps.

National Directory of New Hires (NDNH)

The IRS currently has access to the Department of Health and Human Services' NDNH database, but only for the purpose of administering the Earned Income Tax Credit. Expanded access to new hire data and quarterly wage detail data from the NDNH would facilitate the resolution of unfiled FUTA (Form 940) and FICA (Form 941) returns and help the IRS to identify current collection sources. A legislative proposal to provide such access is included in the Administration's 2006 Budget. A detailed explanation of the proposal may be found on page 132 of the *General Explanations of the Administration's Fiscal Year 2006 Revenue Proposals* ("2005 Blue Book").

Tax Shelter – Listed Transaction Process

Designation of an issue as a listed transaction is an important weapon in the battle against abusive transactions. Because the American Jobs Creation contains several provisions relying on listed transaction status, use of listing has grown in importance. In addition, the IRS has several audit procedures that are triggered by a listing status, including a mandatory information document request (IDR), penalty development and approval, and requests for tax accrual workpapers. However, only one transaction, SILOs, has been listed during the last year.

1. Please explain why there have not been more new listed transactions.
2. Please describe the criteria used to determine whether an issue becomes a listed transaction and whether a concerted, consistent and comprehensive approach is being taken to make maximum use of the recent legislation and established IRS procedures associated with listed tax shelters.

ANSWERS to Questions 1 & 2

The ability of the IRS and the Treasury Department to list a transaction is an important tool in curbing abusive tax avoidance transactions and to provide guidance to taxpayers and their advisors on our interpretation of the transaction. Listing a transaction has significant consequences, including disclosure obligations that are imposed on taxpayers and their advisors and the potential for penalties. The disclosure obligations are now supported by meaningful penalties that recently were enacted as part of the American Jobs Creation Act of 2004 (Jobs Act).

From the IRS' standpoint, the publication of a listing notice merely begins the process of actions necessary to develop and dispose of cases involving transactions covered by the notice, administratively or in the courts. IRS personnel engaged in a variety of these enforcement efforts during the past

year with respect to previously issued listing notices, the most notable of which was the settlement initiative covering Son of BOSS transactions described in Notice 2000-44 [2000-36 I.R.B. 255].

To evaluate the merits of a transaction and decide whether listing is appropriate, the Treasury Department and the IRS must understand the facts of the transaction, the tax positions claimed by the taxpayer, and the potential abuse of the transaction. In general, once the Treasury Department and the IRS become aware of a potentially abusive transaction, the first step in the process is to gather the information necessary to evaluate the transaction. When there is sufficient information to understand the transaction, technical experts at the IRS consider the appropriate legal analysis of the transaction. Determinations are then made as to whether the transaction should be considered for listing.

The Treasury Department and the IRS have an obligation to understand fully and to evaluate carefully a transaction before it is designated as a listed transaction. To maintain the credibility of the message sent by the designation of a transaction as a listed transaction, the process must be undertaken in a deliberate manner. As you note, the Treasury Department and the IRS recently listed one transaction (Notice 2005-13 [2005-9 I.R.B. 630], Sale-in/Lease-out (SILO) transactions). While the Treasury Department and the IRS are considering a number of other potentially abusive transactions for listing, no final determinations have been made. There are a variety of potentially abusive transactions, and each transaction presents unique challenges in determining whether, as a factual and a legal matter, the transaction is one that merits designation as a listed transaction. Not every tax avoidance transaction is or should be designated as a listed transaction. Certain transactions that give rise to improper tax benefits are best addressed using traditional tools, such as issuing published guidance expeditiously to make clear that those transactions have questionable legal support. For example, the Treasury Department and the IRS quickly acted to address abuses associated with qualified transportation fringe benefits by issuing Revenue Ruling 2004-98 [2004-42 I.R.B. 664]. In other cases, the inquiry regarding the propriety of a transaction is so fact-specific that a listing notice cannot be tailored adequately to address only abusive fact patterns. The determination to refrain from listing a transaction does not represent a determination that the transaction will not be challenged or that the tax benefits should be allowed.

Through published guidance, enforcement, and support of legislative changes, the Treasury Department and the IRS have generally been successful in addressing tax shelters. These successes, however, bring other challenges such as understanding the shifting tax shelter marketplace. The nature of taxpayers who are likely to enter into potentially abusive transactions may change. For example, with the passing of the

Sarbanes-Oxley Act and requirements for reporting involvement in tax shelters to the Securities and Exchange Commission, large public companies may be less inclined to enter into potentially abusive transactions. Also, the types of promoters appear to have changed and those that remain have altered their methods for marketing and selling transactions.

In addition, the IRS is also receiving an increasing volume of disclosures from investors and material advisors. The IRS is currently taking steps to review these filings and to determine which of them should be referred for listing consideration based on known information from various sources and which need to be pursued in an examination to ascertain more facts. While the Treasury Department and the IRS are prepared to address these challenges, understanding the evolving market for tax shelters and identifying the trends of potentially abusive transactions continues to present challenges as that market adapts to the reinvigorated attention shelters have received from Congress, the IRS, and the Treasury Department.

In addition to considering additional transactions for listing, the IRS and Treasury Department are working to establish procedures to implement the statutory changes made by the Jobs Act. In the past six months, interim guidance has been issued with respect to the revised disclosure provisions in Internal Revenue Code (Code) sections 6111 and 6112, and with respect to the new penalty provisions in Code sections 6662A and 6707A. This guidance will allow the IRS to apply the recent statutory changes in appropriate cases.

“Free-File” Initiative

1. How many companies participated in the tax year 2004 program?

ANSWER

For tax year 2004 (Filing Season 2005), twenty (20) companies participated in the IRS Free File program.

2. How many years has each of these companies been in business?

ANSWER

We do not have records of how long each company has been in business; however, the chart below shows how long each company has been involved in the Online Filing Program.

Free File Alliance Member	Online Filing Services	Free File Participant
#1 Discount Tax Return Service, LLC	Aug. 2002	3 years
1040Now, Inc.	Nov. 1997	2 years
123 Easy Tax Filing, LLC	Aug. 2002	1 year

Free File Alliance Member	Online Filing Services	Free File Participant
2 nd Story Software, Inc.	Nov. 1998	3 years
Braman Tax Services	Nov. 2002	2 years
C&S Technologies	Oct. 1999	3 years
CCH, Inc.	Dec. 1998	3 years
Efile Tax Returns, Inc.	Aug. 2002	3 years
ezTaxReturn.com	Dec. 2000	3 years
FileYourTaxes.com	Nov. 1991	3 years
Free Tax Returns.com, Inc.	Feb. 2001	3 years
H&R Block	Oct. 1991	3 years
Intuit	Oct. 1991	3 years
my1040ez.com, Inc.	Jun. 2001	3 years
OnLine Taxes, Inc.	Dec. 1999	3 years
Tax Centers of America	Oct. 1992	1 year
Tax-Engine.com	Oct. 2002	3 years
TaxNet, Inc.	Oct. 2004	1 year
TaxSimple	Dec. 2002	3 years
TaxSlayer	Oct. 1991	3 years

3. How many years has each of these companies participated in the program?

ANSWER

Please see answer to Question 2, above.

4. Who decides if a company participates in Free-File – the Free-File Alliance or the IRS? Whether the Alliance or the IRS, what processes and what criteria are used to determine whether a company should be allowed to participate? How is quality control measured? If the Alliance makes the decision, how does the IRS oversee the Alliance?

ANSWER

Both the IRS and the Free File Alliance, LLC (FFA), play a role in deciding whether a company may participate in the Free File program.

According to the Free On-Line Electronic Tax Filing Agreement (October 30, 2002) between IRS and the FFA, the Consortium (a.k.a. the Alliance) shall accept offerings from entities that are Authorized IRS e-file Providers in accord with IRS Revenue Procedure 2001-31 and are in compliance with applicable law, including but not limited to, Department of the Treasury/IRS rules, including but not limited to 31 C.F.R. Part 10, IRS Revenue Procedure 2001-31, current versions of IRS Publications 1345 and 1345-A, and 26 U.S.C. § 7216.

In its 2004 Operating Agreement (Article IV Section 4.1), the FFA outlines its admission requirements for Alliance membership. (See Appendix 2.)

Participants in the Free File program are Authorized IRS e-file providers that must adhere to IRS Revenue Procedure 2001-31. Acceptance into the IRS e-file program entails completing and submitting an IRS e-file application and undergoing an annual suitability check by IRS. Suitability checks may include the following: A criminal background check; a credit history check; a tax compliance check to ensure that all required returns are filed and paid, and to identify fraud and preparer penalties; and a check for prior non-compliance with IRS e-file requirements.

In addition, participants in the Free File program undergo software and/or communications testing with IRS before acceptance into the program. The purpose of testing is to ensure, prior to live processing, that the participants transmit in the correct format and meet the IRS electronic filing specifications; that returns have few validation or math errors; that required fields will post to the IRS Master File; and that the participants understand the mechanics of IRS e-file.

5. What oversight occurs during the filing season of each company's software and operations, including, but not limited to, whether the software is accurate, what ancillary products are being sold (e.g., refund anticipation loans, refund ATM cards, audit insurance, etc.), and whether the taxpayer gets what he/she pays for? Who does this oversight – the Alliance or IRS? If the Alliance, what oversight does IRS perform of the Alliance?

ANSWER

Ensuring the integrity and functionality of the Free File program is extremely important. As a result, there are a variety of measures to assure that companies participating in the Alliance are able to support their free offering while providing taxpayers with a quality product. For example, companies interested in participating with the Free File program must adhere to all requirements associated with the IRS e-file program (e.g., application, suitability, testing, etc.) and must provide such services in accordance with all applicable federal, state and local laws, rules and regulations. Other requirements for Free File participation include (but are not limited to):

- Certification of third party privacy and security.
- Compliance with all federal rules and regulations on taxpayer privacy. These rules generally prohibit use of tax return data for purposes not specifically authorized by the taxpayer.
- Financial contribution to the operation of the Free File Alliance in accordance with Operating Agreement.

To ensure that Alliance members adhere to the standards and requirements set forth in the Alliance's Operating Agreement, the Service conducts reviews of all Alliance member web sites prior to launch. A Service review team examines all sites before that are posted on the Service's Free File site. A checklist ensures consistency among reviewers. In addition, the Service monitors the progress of each member during the filing season. Members are also required to alert the Service immediately if any problems arise. If appropriate, the Service will remove the provider from the online listing until the problem is resolved.

To use Free File services, taxpayers are under no obligation to purchase any product from participating companies. Although the IRS does not endorse the use of such products, obtaining a fee-based product is a decision left to the individual taxpayer.

6. Does the IRS or the Alliance (please specify if none, one or both) keep track of the types of ancillary products that are being sold and the revenues received from them, including, but not limited to, refund anticipation loans, refund ATM cards, audit insurance, etc.? Please provide detailed information, including how many companies offer each type of product, the number of taxpayers buying each product and the revenues received from each product.

ANSWER

Neither the IRS nor the FFA keeps track of the types of ancillary products individually sold by each of the FFA members and the revenues received from them. The FFA members view such information as proprietary. However, the IRS responds to all taxpayer communications expressing valid concerns or complaints about a Free File offer. Such concerns and complaints are resolved and the affected FFA member is notified and required to solve any identified problem and to ensure that future problems do not occur.

7. What is the IRS's position with respect to any perceptions of conflict of interest or implied endorsement of certain companies' tax filing products that could result from the ability to link to them directly from the IRS website.

ANSWER

The IRS expressly does not endorse the cross-selling of any ancillary products or services posted on an Alliance member's web site. To use Free File services, taxpayers are under no obligation to purchase any product from participating companies. IRS clearly communicates this message on the IRS website. Ultimately, the choice for obtaining a fee-based product is a decision left to the individual.

Prior to exiting the IRS web site to link over to an Alliance member's website, taxpayers are presented with an IRS disclaimer screen alerting the taxpayer that they will be leaving a government website and entering a privately owned

website created, operated and maintained by a private business. The taxpayer is provided an opportunity to decide whether to continue and exit or remain within the IRS website.

8. Has the IRS estimated what the cost would be if the agency contracted out the Free-File program to a bidder?

ANSWER

In its EZ Tax Filing Business Case and Capital Asset Plan (December 10, 2001), the IRS considered two alternatives for assuring a free Internet option for taxpayers. They are as follows:

- **Proprietary Government Solution:** An IRS branded, free Internet tax filing site. The IRS would outsource development and maintenance of the site as well as the customer service.
- **Industry/Partnership Solution:** Explore with industry the development of a partnership to assure the availability of free Internet filing options for a broad base of tax filers.

The proprietary government solution, referred to as NetFile in the original business case, was targeted at providing no-cost, online Internet filing capabilities to a broad market of approximately 20 million taxpayers – wage earners who self-prepare and mail-in paper returns (1040EZ and 1040A). It was estimated that NetFile could, with the necessary resources, be implemented in a 24-month timeframe requiring estimated investment costs of \$31.3 million (in 2001 dollars) for the FY 2002 – FY 2007 period. While the IRS would be able to reduce costs for processing returns, incremental customer service support and marketing costs would absorb these savings, resulting in a negative On-Budget benefit for the IRS in the above time period.

9. Please provide a list of all the complaints and problems the IRS has received from taxpayers, including, but not limited to, violations of confidentiality.

ANSWER

See Appendix 3

10. Does the Alliance receive any type of fees, compensation, remuneration, or reimbursement from the companies that participate? If so, describe what the amounts are based on (including the sale of ancillary products), what the Alliance uses them for, and the amounts received. In exchange for the fees, compensation, remuneration, or reimbursement, do the companies receive anything other than the right to put their software on the Free-File website?

ANSWER

Members of the Alliance pay an initial capital contribution to the FFA, not the IRS, to participate as a member of the Free File Alliance to defray ordinary and

necessary operating expenses. At the discretion of the Executive Director, members may be required to make additional capital contributions to pay any extraordinary and unbudgeted expenses.

Private Collection Agencies

The IRS announced that it expects to implement private collection services in early 2006.

1. Has the IRS selected a vendor(s)? If so, please identify all vendors.

ANSWER

The Request for Quotes (RFQ) was issued to Private Collection Agencies (PCAs) that are schedule vendors with General Services Administration (GSA) Financial and Business Solutions (FABS) Schedule 520, Special Item Number (SIN) 4, Debt Collection Services contracts. IRS anticipates actual award for the limited implementation efforts to three of these schedule vendors sometime this summer.

2. What criteria are used to select a vendor?

ANSWER

The RFQ will have 3 primary evaluation factors. The first is technical and past performance. The IRS will evaluate the vendor's technical approach to satisfying the requirements outlined in the statement of work. This will include the vendor's methods of telephone contacts, direct mailing efforts, skip tracing, skill mix of personnel assigned to contract, monitoring and compliance programs, and ability to provide for Federal Government monitoring of its systems.

The technical review will include an evaluation of the vendor's management plan, including how the vendor will organize, staff, train and manage the work. The vendor's physical security, data integrity, communications security, disaster recovery plan, and personnel security shall be evaluated. The IRS will evaluate how the vendor will meet privacy requirements.

The IRS will also evaluate the vendor's relevant experience in the collection of debt owed the Federal Government. The vendor's recovery rate in the collection of federal, state, and local government debt, and consumer and commercial debt will be evaluated.

The second evaluation factor is licensing and bonding information. Due to the nationwide aspect of the program vendors must meet industry requirements, including licensing and bonding requirements, for collecting consumer and commercial debt nationwide and in the territories of Puerto Rico, Guam, and the Virgin Islands.

The third evaluation factor is pricing.

3. How will the IRS determine which cases to assign to the vendors?

ANSWER

During the limited implementation phase, the IRS will be assigning delinquent tax accounts that have less complex collection issues. These will include accounts where the taxpayer owes greater than \$100 but less than \$25,000 and has acknowledged the amount owed. They will be accounts the IRS does not have the resources to address internally but believes can be collected with proactive methods.

4. What training or other orientation will IRS give to the vendors and their employees?

ANSWER

The IRS will provide the vendors with specific training. This training will include information on tax receivables, forms, tax-periods, filing statuses, etc. In addition there will be significant training regarding taxpayer rights, privacy, disclosure, browsing and safeguards, to include the mandatory training provided annually to IRS employees on these topics.

5. How will the IRS evaluate the performance of the vendors? How often will these evaluations occur? Who in IRS will be responsible for this oversight?

ANSWER

The IRS will evaluate the performance of the vendors using a balanced measures scorecard. There are five elements to the scorecard. The elements for evaluation are (1) dollars collected as a percentage of dollars placed; (2) accounts resolved to include appropriate administrative resolutions in addition to accounts closed as full paid or in repayment status; (3) quality score from IRS monitoring of PCA activities for adherence to technical approach proposed; (4) taxpayer satisfaction as determined by IRS surveying of customer satisfaction similar to IRS surveys; and, (5) PCA employee satisfaction to be determined by employee turnover on IRS account work and periodic focus groups with PCA employees.

6. What processes/safeguards will be used to protect taxpayer rights?

ANSWER

First, the IRS will review and approve all written communication with taxpayers. Additionally, the IRS will establish an oversight group, within the IRS compliance organization, with responsibility for monitoring PCA activities. This will include ensuring only approved written communications are provided to taxpayers. The oversight group will also monitor PCA employee telephone conversations with taxpayers, both live and recorded. IRS monitoring could

result in identification of complaints that would result in point deductions from the balanced measures scorecard and reductions in vendor payments commensurate with the level of the violation identified.

Second, the same IRS standards for customer service and protection of taxpayer rights will be strictly enforced. PCAs will have limited contact with taxpayers (telephone and written correspondences only), have no enforcement powers and will be prohibited from threatening or intimidating taxpayers or implying that enforcement actions will be taken against them.

Specific safeguards to protect the taxpayer include:

- *Fair Debt Collection Practices Act.*
- *Protections against Unauthorized Disclosures* – Permit a taxpayer to pursue legal action against any person who is permitted to receive tax returns and return information for purposes of assisting in tax administration, but who unlawfully inspects or discloses that information. Civil and criminal penalties also may be imposed.
- *Assistance from the National Taxpayer Advocate* – PCAs will be required to inform taxpayers of their right to obtain assistance from the office of the National Taxpayer Advocate and immediately notify the designated point of contact that TAS assistance has been requested.
- *Protections with respect to Third Party Contacts, Installment Agreements and communications* – Examples of these protections include the prohibition on levy during the consideration and term of the installment agreement, as well as immediately after a proposed rejection or termination of an installment agreement.
- *Protections against conduct that violates Minimum Standards* – Such protections require, for example, that PCAs comply fully with the provisions of section 1203 of the Internal Revenue Service Restructuring and Reform Act of 1998, including removal of PCA employees who violate the requirements of this provision from administration of the IRS contract.

7. What actions will IRS take if a vendor is determined to be ineffective or in violation of taxpayer rights? How will the IRS handle complaints from taxpayers?

The IRS has the ability to terminate vendor contracts for non-performance to include violation of taxpayer rights.

The vendor is required to provide taxpayers wishing to complain about the vendor the appropriate IRS contact information, including the title and address of the IRS contracting officer's technical representative. When a complaint is received by the IRS, the vendor will be instructed to suspend collection activity on the account in question. The vendor will not be allowed to resume collection activity on the account until authorized by the IRS.

The IRS will require the vendor to keep a log of all complaints. The complaint logs shall be accessible by designated IRS representatives. In addition, the vendor's Management Plan shall address in specific detail how the vendor will address, mitigate and resolve complaints, as well as its plan for prevention of additional or repeat complaints.

Complaints that are validated will have a negative impact on the vendor's performance, including point deductions on the balanced measures scorecard and reductions in vendor fees awarded. The contracting officer will request remediation plans, as appropriate, for complaints against specific PCA employees. These remediation plans may include removal of the offending PCA employee from performance on the IRS contract. In appropriate circumstances, validated complaints can lead to the termination of vendor contracts.

8. What impact do you think the use of outside collection agencies will have on the tax gap?

The PCA activities will assist the IRS to address significant backlogs in delinquent tax receivables. The anticipated results will include additional revenue to the Treasury and appropriate identification and classification of receivables.

9. How much money do you expect to be collected each year? How much will this cost, including amounts paid to the vendors and IRS resources for oversight, processing, etc.? How does this cost compare to the IRS doing this work for itself?

The IRS is reviewing revenue estimates from PCA collections as it works to implement the program following its legislative authorization. Currently, we estimate that PCAs will collect \$1.4 billion in outstanding tax debt over the next ten years. However, we are working to refine our estimate and determine spreading of revenue as the program becomes fully functional. Commission fees will be paid to the vendors on dollars collected at specified rates. The fees will be based on the balance range (amount outstanding) of the account, not to exceed 25 percent of the amount collected.

The IRS has requested additional staffing to support the PCA efforts within the IRS. This staffing will be used to resolve issues that are not within the authority of the PCAs, to provide oversight and quality review of PCA activities, and to manage the contract provisions as the contracting officer's technical representative. It is anticipated that, at full capacity (FY 2008), this will require an additional 140 Full Time Equivalent within the IRS.

The accounts that the IRS anticipates placing with PCAs are not being actively addressed by IRS resources. The volume of delinquent taxpayers exceeds the IRS' collection capacity, resulting in a backlog of cases that the IRS cannot

work without additional resources. Due to the limited nature of activity that can be performed by the PCAs, we do not have precise comparative estimates of what the cost would be for the IRS to work the accounts internally. The cost for the IRS to perform these tasks may be lower. As noted above, though, the IRS does not have the resources necessary to pursue collection of these tax debts.

The Government Accountability Office (GAO) has recommended that as soon as practical after experience is gained using PCAs, the Commissioner should ensure that a study is completed that compares the use of PCAs to a collection strategy that officials determine to be the most effective and efficient overall way of achieving collection goals. In the IRS' response to GAO, the IRS confirmed its commitment to performing an analysis of the PCA program once actual data are readily available, and any strategic impact of the program on the overall collection of delinquent taxes.

The IRS recently released Tax Gap estimates from its National Research Program study. The estimates are based on examinations conducted on tax year 2001 returns. Since that time, Congress has passed important measures to simplify and reduce erroneous payments in the EITC, and the IRS has implemented a number of additional administrative improvements. Changes since Tax Year 2001 that should reduce EITC errors include the following:

Simplifications and clarifications of tax law that are reducing overpayments:

Major changes were enacted in 2001 to simplify the EITC and reduce errors. Treasury economists have estimated that these provisions reduce overpayments by about \$2 billion a year. (These provisions were not yet in effect in 2001.) Changes that were enacted in 2001 — and additional changes enacted since then — that simplify the EITC and should reduce erroneous payments include:

- Rules to simplify what had been exceedingly complicated (and essentially unenforceable) rules regarding who can claim a child for the EITC in a multi-generational household
- New rules that conform the definitions of AGI and earned income used in the EITC to the definitions used in the rest of the individual income tax code. Previously, the EITC had its own idiosyncratic definitions.
- Uniform Definition of Qualifying Child – enacted last year, this measure is designed to reduce confusion and improve consistency across the EITC and other child related tax provisions, such as the child tax credit. Previously there were large inconsistencies between the definition of qualifying child used in the EITC and the definitions used for other child-related provisions of the code.

Administrative Changes:

The IRS has:

- Increased examination coverage – since tax year 2001, EITC examinations (audits) have risen from 373,000 to 465,000, an increase of nearly 25 percent.
- Implemented numerous business process reforms that enhance IRS' ability to identify erroneous EITC returns. These include:
 - Use of a private sector solution to improve the way EITC returns are selected for examination and to identify the most cost-effective methods of collecting EITC overpayments
 - A new process to identify errors in amended EITC returns.
 - Enhanced research to improve methods for selecting returns to scrutinize more closely, and thereby to target EITC compliance resources more effectively.
 - New inventory management tools that will route the most egregious EITC returns to examiners with specific expertise no matter where they are across the country
 - A Decision Support Tool that will ensure consistency in EITC examinations, so similarly situated taxpayers will be treated similarly no matter their geographic location.
 - General automation of IRS examination processes to increase efficiency, speed, accuracy and fairness.
- Instituted an ongoing preparer strategy designed to identify and punish unscrupulous preparers who help their clients improperly claim the EITC
- Instituted tests (now underway) of specific methodologies to combat the three largest types of EITC errors:
 - Qualifying Child Certification – the IRS is conducting tests to determine the effects of requiring a subset of EITC claimants to provide extensive documentation proving that they lived with the children they are claiming for more than half the year.
 - Filing Status – the IRS is testing methods to identify taxpayers using an incorrect filing status.

- o Under-reported Income – the IRS is revamping the way it identifies unreported income, with a specific focus on EITC taxpayers
- Partnering with state governments to share information that can be used to identify and address EITC error.
- Acknowledging the steps that Congress and IRS have made since 2001, do the recently released Tax Gap estimates from the IRS National Research Program study reflect current levels of EITC error and non compliance?

ANSWER

No. The recently released tax gap estimates, developed in part from the first phase of the National Research Program (NRP) study, which focused on individual taxpayers for tax year 2001, are estimates of compliance for tax year 2001 and therefore do not reflect the impact of recent statutory and administrative changes.

- If not, by how much (according to IRS estimates) have the recently enacted legislative reforms as well administrative actions reduced error and non compliance in the EITC?

ANSWER

The Economic Growth and Tax Relief Reconciliation Act of 2001 contained some provisions that should help lower Earned Income Tax Credit (EITC) noncompliance, including a simplification of the adjusted gross income tiebreaker and marriage penalty relief. Treasury has estimated that these provisions reduced EITC erroneous claims by roughly \$2 billion (in 1999 dollars).

From Senator Rockefeller:

I am very concerned about the IRS's decision to reduce taxpayer services at the same time that it increases enforcement efforts. Many Americans depend on the face-to-face assistance that they can receive from Taxpayer Assistance Centers.

Please explain the process that the IRS will go through to determine which Taxpayer Assistance Centers will be closed? What criteria will be used to evaluate the Centers?

ANSWER

Our challenge was identifying the most appropriate Taxpayer Assistance Centers (TAC) for closure – those where the closure would have the least impact on taxpayers and our employees. This was a data-driven decision based on a business model with five neutral criteria (a copy of the criteria is attached as Appendix 1):

- Demographics with 12 subcomponents;

- Geography with 4 subcomponents;
- Workload with 3 subcomponents;
- Facilities cost with 6 subcomponents; and
- Employee cost with 8 subcomponents.

We populated the business model with FY 2004 data and the most recent census information and assigned weights to each criterion. Our weighting was customer-centric and based on internal and external stakeholder input. We assigned nearly two-thirds of the weighting to customer considerations – workload, geography, and demographics – and only one-third of the weighting to employee and facilities costs.

We applied three business rules to the weighted model for fairness:

- 1) A significant office presence will remain in the top 35 metropolitan areas based on the latest census population information.
- 2) No state would lose more than half of its TACs, nor have a TAC closed that accounted for more than 40 percent of the customers serviced in that state.
- 3) Alaska and Hawaii would not have any TACs closed as they are remote locations away from the continental U.S.

The data, weights, and rules produced a ranked listing of TACs. In general, we are retaining a TAC footprint in high traffic areas with the greatest need and rural areas with limited accessibility to other offices.

What specific role will the Taxpayer Advocate Service play in making these decisions?

ANSWER

The National Taxpayer Advocate (NTA) was briefed on the model and asked for her opinion on the criteria utilized. Based on feedback from the NTA, we assigned the majority of the weight—nearly two-thirds—to customer considerations: workload, geography, and demographics; only one-third of the weighting went to labor and facilities costs. However, because this was an objective, data-driven business decision, the NTA did not have a specific role in the decision process resulting in the final identification of the 68 sites to be closed.

Has there been any effort to decrease the utilization of Taxpayer Assistance Centers in recent years?

ANSWER

In recent years, the number of taxpayers walking into a TAC for assistance has decreased from a high of nearly 10 million contacts in FY 2000 to about 7.7 million contacts in FY 2004. This trend reflects the increased availability and quality of services that do not require travel or waiting in line. Such services include improved access to IRS telephone service, the increasing availability of volunteer assistance, and the many services now available through IRS.gov, such

as “Free File” and “Where’s My Refund?” In addition, the ability to download forms online has also contributed to the decline in the number of customers walking into a TAC. We have also continued to improve our telephone service for taxpayers who call the IRS with questions. The use of other alternatives, such as volunteer return assistance at Volunteer Income Tax Assistance (VITA) sites and Tax Counseling for the Elderly (TCE) sites, has steadily increased while the number of TAC contacts decreased. In FY 1999, for example, VITA sites filed almost 584,000 returns, and TCE sites filed 446,000 returns. In the next five years, the numbers of returns filed through these sites increased 88 percent, reaching 976,000 VITA returns and 958,000 TCE returns in FY 2004.

For example, have employees been discouraged from accommodating as many taxpayers as may request assistance?

ANSWER

No. Although a strategic effort was made to reduce traffic at TACs, we believe other IRS initiatives such as e-Services have contributed to an increase in taxpayers meeting their customer service needs through an environment other than face-to-face.

Field Assistance’s target state described in the Concept of Operations (CONOPs) establishes the foundation for its strategic direction. The target-state objective requires the gradual refocusing of resources from the traditional pre-filing work to face-to-face Compliance work through the year 2010. To impact this objective, Field Assistance started with efforts to redirect traditional return preparation, and aggressively marketed the use of self-service mechanisms to obtain forms, publications, and transcripts. The shift from face-to-face to self-help mechanisms is being achieved by implementing targeted objectives, such as reduction in return preparation and revamping procedures related to account transcripts and the issuance of ITINs. However, there are other taxpayer behaviors influencing the number of visitations to TACs. For example, request for transcripts through the toll-free number and the Transcript Delivery System (TDS) for practitioners have accounted for a significant decrease in volume. Further, on a yearly basis return preparation was reduced by 20 percent by redirecting customers to specific alternate methods such as “Free File,” SPEC partners, and the local practitioners’ association websites.

How will the IRS serve customers who will no longer be able to receive face-to-face assistance at a Taxpayer Service Center?

ANSWER

We will continue to fully support the remaining 332 TACs and all alternative means of obtaining taxpayer services. Many taxpayers have already migrated to more convenient, available-on-demand services, such as IRS.gov for tax forms and information, for free e-filing through Free File, and to check the status of their

refunds. More taxpayers – 46.6 percent more this year – are turning to free online e-filing.

Many senior citizens and families qualifying for EITC already use the free volunteer tax preparation help in their communities. Between 1999 and 2004, the number of returns filed through these volunteer sites increased 88 percent, reaching 976,000 VITA returns and 958,000 TCE returns in FY 2004.

Toll-Free telephone help is the convenient choice for many, fielding 77.5 million calls last year. In-person phone help will be available 12 hours a day and automated phone help is available nearly round-the-clock, making this assistance available when taxpayers want it.

If Taxpayer Assistance Centers located near Taxpayer Advocate Offices are closed, what efforts will be made to ensure that the Taxpayer Advocate Offices are able to accommodate taxpayers who are accustomed to receiving assistance from the IRS at that location?

ANSWER

We do not anticipate a significant increase in referrals to the Taxpayer Advocate Service (TAS). TAS criteria for assisting taxpayers are very specific and its employees already have instructions on how to inform taxpayers who do not meet the criteria what they need to do to receive assistance. In addition, a comprehensive communications plan is being developed to ensure that internal and external stakeholders, as well as the tax-paying public, are well-informed regarding final TAC closure decisions. The IRS has always utilized multiple channels of communications, including mass media (national and local), stakeholder groups, community-based groups, the practitioner community, IRS publications, and the IRS Web site. We also intend to ensure that taxpayers affected by these closures will be informed regarding the alternative services that are available to meet their needs, such as volunteer return preparation sites and other alternatives such as Toll-Free telephone service and IRS.gov.

From Senator Kerry:

1. How many employees currently work in the Boston call center and what is the estimated date for the Boston closing? Where will these employees be placed?

ANSWER

Eighty-five employees currently work in the Boston call site. We anticipate beginning an orderly shutdown later this year with closure occurring by October 1, 2005. We have offered all employees at the Boston call site the opportunity to transfer to the Andover campus call site. In addition, we requested and received authority from the Office of Personnel Management to offer early outs and buy outs to any of the 85 employees who decline to transfer to Andover. We hope to begin negotiations with the National Treasury Employees Union as

soon as possible to give our employees time to decide the best course of action in their individual circumstances.

2. How many taxpayers does the Boston toll-free center serve and how will the closing impact Massachusetts taxpayers?

ANSWER

The Boston satellite office has answered 198,628 of the 19,900,258 calls answered by IRS in 2005. Calls are routed to the Boston satellite office from taxpayers nationwide and represent only .009 percent of our total calls answered. Taxpayers will not notice a change because their calls are currently routed and answered nationwide. We do not anticipate any level of service reductions to any taxpayers due to this change.

3. To what center or centers will the current call volume in Massachusetts be directed?

ANSWER

We will re-route the calls/work to our other major call centers. The change will be invisible to callers – we currently route calls to the first available assistor nationwide. For example, calls from Boston taxpayers could be answered in Fresno, CA, or Andover, MA.

4. What criteria will you use to determine which Taxpayer Assistance Centers (TACs) will be closed and how will you analyze the criteria to determine how current taxpayers who utilize the TACs will be affected?

ANSWER

Our challenge was identifying the most appropriate TACs for closure – those where the closure would have the least impact to taxpayers and our employees. This was a data-driven decision based on a business model with five neutral criteria (a copy of the criteria is attached as Appendix 1):

- **Demographics with 12 subcomponents;**
- **Geography with 4 subcomponents;**
- **Workload with 3 subcomponents;**
- **Facilities cost with 6 subcomponents; and**
- **Employee cost with 8 subcomponents.**

We populated the business model with FY 2004 data and the most recent census information and assigned weights to each criterion. Our weighting was customer-centric and based on internal and external stakeholder input. We assigned nearly two-thirds of the weighting to customer considerations – workload, geography, and demographics – and only one-third of the weighting to labor and facilities costs.

We applied three business rules to the weighted model for fairness:

- 1) A significant office presence will remain in the top 35 metropolitan areas based on the latest census population information.
- 2) No state would lose more than half of its TACs, nor have a TAC closed that accounted for more than 40 percent of the customers serviced in that state.
- 3) Alaska and Hawaii would not have any TACs closed as they are remote locations away from the continental U.S.

The data, weights, and rules produced a ranked listing of TACs. In general, we are retaining a TAC footprint in high traffic areas with the greatest need and rural areas with limited accessibility to other offices.

5. How many taxpayers do the TACs in Massachusetts serve and how will a potential TAC closing in the state impact Massachusetts taxpayers?

ANSWER

During filing season 2004, TACs in Massachusetts served 57,951 taxpayers. During filing season 2005, TACs in Massachusetts served 39,167 taxpayers. This one-year decline of more than 30 percent is consistent with the decline seen in other TAC offices around the country.

We have identified four TACs in Massachusetts for closure. We are closing one TAC in Fitchburg, one in Hyannis, one in Pittsfield, and one in Quincy. These closings should have a minimal impact on Massachusetts taxpayers. Nationwide, the number of taxpayers walking into an IRS TAC office for assistance has decreased from a high of nearly 10 million contacts in FY 2000 to about 7.7 million contacts in FY 2004. This trend reflects the increased availability and quality of services that do not require travel or waiting in line. Examples include improved access to IRS telephone service, the increasing availability of volunteer assistance, and the many services now available through IRS.gov, such as "Free File" and "Where's My Refund?" In addition, the ability to download forms online has also contributed to the decline in the number of customers walking into a TAC. We have also continued to improve our telephone service for taxpayers who call the IRS with questions. The use of other alternatives, such as volunteer return assistance at Volunteer Income Tax Assistance (VITA) sites and Tax Counseling for the Elderly sites (TCE), has steadily increased while the number of TAC contacts decreased. In FY 1999, for example, VITA sites filed almost 584,000 returns, and TCE sites filed 446,000 returns. In the next five years, the numbers of returns filed through these sites increased 88 percent, reaching 976,000 VITA returns and 958,000 TCE returns in FY 2004.

Taxpayer Assistance Center (TAC) Closure Methodology

The IRS developed five criteria that comprised the input elements of the model used in deciding the TAC sites that would be closed. These criteria were 1) geography, 2) employee costs, 3) facilities costs, 4) workload, and 5) demographics. In addition, each of the five criteria had multiple components.

Initially, all five criteria were given the same weight. After obtaining comments from within the IRS, as well as external comments from our Internal Revenue Service Advisory Committee (IRSAC), we revised our methodology to give slightly more weight to geography, demographics and workload. All the components within each criteria were also weighted.

Utilizing an industry standard model, over 13,000 data points were input into the model for weighting. The model then ranked the sites. The result from the model showed that some states would have more than 50 percent of their TACs closed and in some cases all TACs were closed in the state. This result did not meet the objective of having a balanced program in delivering assistance to taxpayers.

The IRS then applied three business rules to the model: 1) a significant office presence will remain in the top 35 metropolitan areas based on the latest census population information 2) no state would lose more than half of the TACs in that state, nor have a TAC closed that accounted for more than 40 percent of the customers serviced in that state, and 3) Alaska and Hawaii would not have any TACs closed as they are remote locations away from the continental U.S.

The new business rules identified 68 TACs that would achieve the targeted savings.

Model Criteria and Components

Sub-Model	Criterion	Sub-Model Components
1	Workload	<ul style="list-style-type: none"> ▶ Tax Law, Forms and Pubs. Return Preparation, Accounts workbooks ▶ Modernization efforts applied ▶ Abandoned TACs
2	Demographic	<ul style="list-style-type: none"> ▶ Population size by zip code ▶ Income level by zip code ▶ Poverty level by zip code ▶ Percentage older than 65 by zip code ▶ Population of Household Income <\$35,000 ▶ Number of Returns filed by zip code ▶ Number of EITC Returns filed by zip code ▶ Percentage breakout by EEC demographic categories ▶ Percent Unemployed by zip code ▶ Average Education Level by zip code ▶ Percent of Households with Computers
3	Geographic	<ul style="list-style-type: none"> ▶ Traffic volumes (Filing and Non-Filing Season) ▶ Distance to next nearest TAC ▶ Distance to nearest VITA center ▶ Distance to nearest library, post office, or kiosk
4	Facilities Cost	<ul style="list-style-type: none"> ▶ Space usage ▶ Furniture cost ▶ Square footage cost ▶ Total rent/leasing cost ▶ Length of rent/leasing contract ▶ MILRS cost
5	Employee Cost	<ul style="list-style-type: none"> ▶ Number of managers, secretaries, IARs, TRRs, CSRs, and others ▶ Total overhead hours ▶ Average salary ▶ Number of employees at the TAC ▶ Average benefits ▶ Number of full-time, seasonal, and part-time employees ▶ Total direct labor hours ▶ Retirement eligibility

Appendix 2

4.1 Admission of Members. In order to be considered for membership in the Alliance, a Person must meet the eligibility criteria as set forth in Section 1.11 and the Standards of Practice in Article V. Additionally, (i) unless it is a New Market Entrant, the Person must have processed a cumulative total of 2,500 online returns during years prior to the date the Member executes this Agreement; (ii) the Person's offering of its Services must be made available to not less than 10% of the individual taxpayer population, and (iii) the Services must be offered on a non-discriminatory basis. Whether or not an applicant meets these criteria shall be determined by the Executive Director, utilizing the databases of the IRS, or other IRS-mandated source of data, to review a Person's tax return processing history and to measure the scope of the Services it offers based upon tax return demographics. On or about the date that the Alliance was established, the Executive Director contacted those Persons to be considered for Membership in the Alliance. Any Person who wishes to join and meets the above criteria and the criteria set forth in Section 1.11, may make application to the Alliance, certifying to the truth of its representations regarding its eligibility and the representations and warranties set forth in Section 7.1 below, and confirming the Tier level at which the Person wishes to join the Alliance, as well as providing an offer of Services consistent with that request. The Executive Director will publish a date and place for the receipt of offers and any required payment. Such date shall be after November 15 of each year unless otherwise indicated by public notice of the Executive Director. For 2004, the date is December 1, 2004. If a Person submits its application later than the date established by the Executive Director, the Executive Director shall make reasonable efforts to include the Person for consideration of membership in the Alliance, but such Person shall not be guaranteed that it will be considered or included in the next publication of Members if it does not timely submit its application. The Executive Director shall review each application received, request any additional information needed, and, following any review and consultation with the IRS deemed necessary in the Executive Director's sole discretion, the Executive Director shall contact each Person to confirm or deny eligibility as a Member of the Alliance, and if accepted, the applicable Tier of Membership. Acceptance or rejection and the Tier level shall be within the sole and absolute discretion of the Executive Director.

2005 Free File Customer Service Feedback Extracts Introduction

Free File customer service extracts are copies of correspondence between taxpayers and the IRS helpdesk. Free File extracts were collected prepared by an outside contractor (AFFINA) and submitted to the Free File office for analysis.

Free File extracts are made up of three types of inquiries

- Original Inquiries from taxpayers
- Responses from the IRS help desk
- Responses to the help desk from the taxpayer

Because three types are included in the extract, the original taxpayer question must be identified and separated from IRS responses and further communication with the help desk if the response was related to the same original question. In this process, original questions were extracted from each of the numbered questions. Duplicates were removed from the extract leaving only the original question from the taxpayer.

Period	Total Inquiries		Original Inquiries
1/16/2005 to 1/22/2005	166	Sorted to	99
1/23/2005 to 1/30/2005	210	Sorted to	109
1/31/2005 to 2/6/2005	325	Sorted to	199
2/7/2005 to 2/13/2005	400	Sorted to	229
2/14/2005 to 2/20/2005	362	Sorted to	199
2/21/2005 to 2/27/2005	202	Sorted to	113
2/28/2005 to 3/6/2005	236	Sorted to	131
3/7/2005 to 3/13/2005	171	Sorted to	88
3/14/2005 to 3/20/2005	128	Sorted to	72
3/21/2005 to 3/27/2005	117	Sorted to	60
3/28/2005 to 4/3/2005	140	Sorted to	85
4/4/2005 to 4/10/2005	142	Sorted to	70
4/11/2005 to 4/17/2005	N/A	Sorted to	N/A
	2,599		1,454

The final 1,454 questions directly reflect the volumes that are being submitted for analysis. Volumes for the period 4/11/05 to 4/17/05 were not available from the contractor at the time of this listing.

The following listings only reflect the actual questions asked during the period 1/16/05 through 4/10/05. Further analysis is planned pending receipt of the 4/11/05 to 4/17/05 extracts to identify the nature of the inquiries received.

2005 Free File Customer Service Feedback Extracts
Volume Summary

2004			2005			
1 Year Change			1 Year Change		2 Year Change	
Week Starting	Total	Increase (Decrease)	Week Starting 2005	Total	2004 Increase (Decrease)	2003 Increase (Decrease)
1/5/03	10	N/A	1/2/03	0	-100.00%	N/A
1/12/03	40	-52.38%	1/9/03	0	-100.00%	-100.00%
1/19/03	1,366	340.65%	1/16/03	99	-92.75%	-68.06%
1/26/03	317	-88.47%	1/23/03	109	-65.62%	-96.04%
2/2/03	270	-91.29%	1/30/03	199	-26.30%	-93.58%
2/9/03	269	-83.25%	2/6/03	229	-14.87%	-85.74%
2/16/03	159	-80.27%	2/13/03	199	25.16%	-75.31%
2/23/03	154	-48.15%	2/20/03	113	-26.62%	-61.95%
3/2/03	95	-54.11%	2/27/03	131	37.89%	-36.71%
3/9/03	116	-32.56%	3/6/03	88	-24.14%	-48.84%
3/16/03	112	-39.46%	3/13/03	172	53.57%	-7.03%
3/23/03	79	-51.23%	3/20/03	60	-24.05%	-62.96%
3/30/03	78	-54.65%	3/27/03	85	8.97%	-50.58%
4/6/03	99	-45.00%	4/3/03	70	-29.29%	-61.11%
4/13/03	149	-17.22%	4/10/03	0	N/A	-100.00%
4/20/03	22	144.44%	4/17/03	0	N/A	-100.00%
4/27/03	8	166.67%	4/24/03	0	N/A	-100.00%
	3,343	-67.30%		1,554	-53.51%	-84.80%

2005 Free File Customer Service Feedback Extracts
Week of January 16 through January 22

Reference #	Question
920576	Greetings...I wanted to e-file this year and was browsing the web site. The page for "online filing software companies" mentions the links for information on acquiring this software will be available Jan. 2005...Well? Doing a search through Yahoo, a site called Tax-Act has this software available; most cost, but there is a Free Downloadable version. I believe a free software version should be made available on this site, sometime in the coming year or so. Personally, if I have to pay for software, I will continue to do my taxes on paper
919973	How do I find the link to free e-file companies? What is the first day you can e-file?
920166	I WOULD LIKE TO KNOW WHEN YOUR SYSTEM WILL BE SETUP FOR FREE Efile
928729	I am wondering if I can do the free e-file from my mom's home PC, as I don't have the internet?
923889	Hi, You say free e-file for taxes but all I see is fees for this and fees for that. So is it free?
928774	Turbotax claims their service is free to everyone: Free federal online tax preparation and e-filing for all taxpayers. No restrictions. Everyone qualifies. More details... If you do not access the IRS.gov Free File Alliance website for this free service, then there will be a fee. Yet, when you go there, you find all the restrictions! This appears to be false advertising and very misleading from the outset.
929047	Where do I find the free Turbo tax program on your web site. I heard on the radio that it was available on it
929147	is there any cost in using the turbo tax which is located on the IRS web site?
927633	I tried to find a free file site, but when asked for my state of residence when using "browse services", my state, which is Vermont (VT) wasn't listed. Was this an oversight?
929244	A news story from the associated press about free computer filing programs to be jointly offered by the IRS and software firms doesn't come up with the site. What is the correct address?
929277	I would like to know if I'm, eligible to file a free tax on line. If so, could you send me the site so I can access it.
929593	I have tried the "guide me to a service" web page questionnaire. However, after submitting the info, it takes me back to the (now blank) questionnaire without guiding me to anything. Probably just a javascript glitch of some sort, but annoying, none the less. Also, since my husband is self-employed, I'd expected a question or two on that, but there were none.
930069	EFILE TAX RETURNS INC. did not offer any free service when contacted through IRS site. When I went to there home page and clicked on IRS Home page and returned to EFILE then they offered free service.
930588	The company TaxAct.com, advertised on the IRS website is offering free federal tax eFiling if one meets any one of their three criteria. I meet two and attempted to use their service. The last page wanted to bill me for their services. FIX THIS.
930627	I attempted to complete my income tax return through Turbo Tax free-file link from IRS.gov, but when I completed my return the Turbo Tax site said that I owed them \$29.99 for my federal return and \$29.99 for my state return. The Free-file site stated "TurboTax® for the WebSM: Free federal online tax preparation and e-filing for all taxpayers. No restrictions. Everyone qualifies." When I contacted Turbo Tax neither of the two representatives knew what I was talking about and said that I had to be eligible for the EIC credit. I would think that this is false advertising. Since I have already completed my return, I will not go to another site and re-do it, what are my options here?
929404	Why does the government allow some tax software companies to advertise free tax software on the website when some of the software and filing is not free? This appears to border on false advertising.
931034	I used the free efile with fileyourtaxes. com and they didn't submit my schedule 2 with my 1040 to the IRS. In addition, it shows the daycare information and when I view it shows schedule 2, but it isn't completed. I had dependant care taken out of my check and it was on my w-2. Schedule 2 has the daycare names and amounts, but the dependants are blank and line 28, it entered \$3000 instead of \$6000 giving me \$0 for credit. I emailed the

2005 Free File Customer Service Feedback Extracts
Week of January 16 through January 22

Reference #	Question
	filing company as well with this information. I used them in the past and haven't had any problems.
930996	Hello, I seen in the Evansville, IN newspaper that the IRS is setting up for the public to efile for free at the link listed below, but, everytime I go there, it says the page cannot be found. Could you give me some info on this issue! Thanks!
931258	Tried to use the Free File suggestions tool with Firefox 1.0 as browser. Same page came up blank after submit. Copied the URL to IE address bar and hit submit. Same empty page. Filled in page for IE and it worked. Perhaps you have some .NET specific code or VBscript/ECMAScript that is a specific IE enhancement? CERT issued a recommendation a while back to avoid using IE and new IE exploits come out every month, so it might be better if the IRS official pages did not depend on IE specifics to function. Since jsp/WizardHandler.do seems like a Java with STRUTS name, it seems odd that it only works for IE.
931320	The IRS did an incredible job of enabling all of the free Web sites fore e-filing tax returns. It's informative, easy-to-use, and was delivered when promised on 1-18. We used a site tonight, TurboTax for the Web, and it was an excellent experience. We e-filed in one hour and wanted to thank you for providing this free and valuable service; we thank the "free" vendors as well, not those would profit. Kudos to the IRS for a job well-done.
931257	When I first went online to see about the free online filing for low income families, your web site showed to check back on Tuesday, 1-18-05, because you were currently updating the site. That was over 10 days ago. It is now almost midnight on Wednesday, 1-19-05, and it still has the same message about checking back on 1-18-05, which was almost 48 hours ago. What is the status of the e-file update? I filed last year with one of the companies that offered it, but I understand that if I don't get to their site via irs.gov, then it will not be a free e-file. It means I can't even start entering figures yet, much less send my return for a refund!!!! What's up???
931340	Please remove EFILE TAX RETURNS, INC from the list of Free efile sites. It is not free. In fact, it offers less and charges more than any other site I have found just using a google search engine.
931361	Why is it so difficult to file a tax form? I am single, NO dependents, expecting a refund. I filed a 1040ez form this year but I had to pay a private tax service company to get what I needed to be able to file. I am a Virginia resident and I also have to pay state taxes. Well filing my state tax couldnt be any easier. All I do is log onto the VATAX.gov website input numbers, select direct deposit my refund and I am done. I am sure that if the state can offer something like this that surely the federal IRS could do the same. Please help. I tried to do "efiling" for my federal and the way I understand it I still needed to pay for some other program to do the computations. Please tell me that I am wrong and how to do it like the way my state handles it for future reference.
930305	I FILED WITH NO1 DISCOUNT EFILE TAX RETURN SERVICE AND MY AGI WAS ONLY \$12,507 AND THE CHARGED ME A FEE OF 9.95 IT SHOULD HAVE BEEN FREE ACCORDING TO WHAT IS LISTED BEFORE YOU FILE. THE AGI IS \$30,000. CAN YOU PLEASE HELP ME TO GET MY MONEY BACK?
931526	I am eligible to free file again this year, but your web-site says I may not do so until January 18, 2005. I hate to have to tell you all this, but it IS January 18, 2005! Why is your web-site not updated? I find this unacceptable. In fact, I find it unacceptable that I would need to wait until January 18th at all. Did you not have enough time to get this done prior to January 1, 2005? I guess, if I ever need to pay in to the IRS, you all will be willing to give me an extra few days or months, right?
931532	it is now january 19. There is still no access to free efilng. your web site says it will be available on January 18. What is the new release date please? Thank you. Di
931548	When will your site be ready for free file? It states to try on the 18th but it will not let me in. Thanks, Diane
931570	Today is Tuesday, January 18 ... is this site going to be up and running today?!?!

2005 Free File Customer Service Feedback Extracts
Week of January 16 through January 22

Reference #	Question
931588	The web site said to come back Tue. Jan. 18, 2005 to file. I am here on this date and it still elling me to come back on this date. When should i be able to use this site??
931558	Just tried the Free File selector and, after completing the questions and pressing submit, it came back with the blank questionnaire again. If it means that I don't qualify for any service, I think the page would state that. Or is it because no entry in spouse category/ies - as I am filing single?
931597	Was curious as to when I will be able to free efile. It says today and it still is not up. Thank you very much Colleen
931907	I was trying to use efile and I was filling out the form that would tell me what provider I could use. When I got to "what state do you live in" Vermont was not an option and that is the state I live in.
931670	I CANNOT FIND ANY FREE EFILE GOV. WEB SITE. THE FREE ELECTRONIC FILING ADDRESS PUBLISHED IN MY LOCAL NEWSPAPER: http://www.irs.gov/efile/article/o,,id=118986,00.html cannot be found on the web?????
931915	I came across the following highly misleading statement: TurboTax® for the WebSM: Free federal online tax preparation and e-filing for all taxpayers. No restrictions. Everyone qualifies. It took a little bit of digging, but then I discovered this on the TurboTax website: Filing fee is charged through the Intuit Tax Freedom Project SYMPTOMS: You are being prompted for payment when attempting to file or print an Intuit Tax Freedom Project return. Possible Causes: The taxpayer does not meet the qualifications for the free return. To qualify, one of these criteria must be met: Taxpayer qualifies for the Earned Income Tax Credit (EIC); or Taxpayer earns \$35,500 or less; or Taxpayer is serving active military duty (including Reservists and National Guard) and has a 2004 Form W-2 from the military. The taxpayer is filing a return for a state that does not participate in the Free File Alliance program. Participating states for tax year 2004 are: Alabama Arizona Arkansas Georgia Idaho Iowa Kentucky Massachusetts Michigan Minnesota Mississippi Missouri Montana New York North Dakota Oklahoma Rhode Island Vermont West Virginia States not listed above do not participate in the Free File Alliance program. TurboTax for the Web was accessed through a Web site other than www.statetaxfreedom.com . TurboTax for the Web Premier is being used. The Intuit Tax Freedom Project is only available through the 1040EZ and Basic versions of TurboTax for the Web. RESOLUTION: To qualify for the free file offer, make sure that your tax return meets all four of the criteria above. Most people who go to TurboTax from the link on www.irs.gov won't be as thorough in checking out the company's offer. I suggest that these links be more honest. I truly wish to file my taxes for free or for no more than the cost of postage. Until that's possible, you will be getting a paper return from me. A taxpayer who has filed her own tax returns since 1975.
931945	I would just like to comment that I feel the "free file" is misleading. If you go on line, complete the return on one of the preferred vendors and then have them file the return they deduct \$19.95 from your return. To me that is not free. Since I have 3 returns in the family to file that is a cost of \$59.85 plus the fees to file state returns. Far from free.
931542	At what time today will the site be ready to start allowing us to locate free file companies?
932162	I bring to your attention that on the "GUIDE ME TO A SERVICE" page, for free e-filing, there is no listing for my state, Vermont, when filling out the questionnaire. The state list goes from VA, VI, to WA --- no VT.
932789	RESPONSE REQUESTED I have been waiting to obtain more information about the "Free File" program being offered by the IRS and its partners. When I go to the IRS.gov home page and search by keyword, I pull up the "Free File Home - Your Link to Free Online Filing" page. This page states that there are currently system upgrades being performed and to check back January 18, 2005. Well, it is January 18, 2005 and I am curious to know if perhaps I am just not on the correct page? I want to see if I qualify and get started to use this offer. Can you please explain or point me in the right direction? Thanks so much for your assistance to my request. I appreciate hearing from you in the

2005 Free File Customer Service Feedback Extracts
Week of January 16 through January 22

Reference #	Question
	very near future. Laura Assistant to Gregory P. Forney, Esq. SHAFFER LOMBARDO SHURIN leaster@sis-law.com E-mail
932116	The software used by taxengine.com is faulty. It lists 2003 tax payments under deductions and not credits as is shown on Form 1040 (2004). Please remove them from the list of free e-file companies. Also, even when accessing TurboTax from the IRS website, they require you to pay to e-file. Please remove them as well from the recommended page
933166	It is January 18th. Your website says we will be able to check to see if we can e-file for free on the eighteenth. Thank you, Leslie
933021	I went on your site to find a service for e file and on you guide me to a service page when it ask for a state i live in you have no listing for Vermont which should be VT.
933192	Your "Guide me to a Service" for e-filing does not work for those of use who live in Vermont, as VT is not an option where your site asks us to "Select a state".
933563	THIS IS TO LET YOU KNOW THAT ONLINETAXES.COM IS CHARGING TO FILE FEDERAL TAX RETURNS. I WENT THROUGH THE GOVERNMENT LINK(WHERE THEY SAID THE SITE WAS FREE), AND AFTER TWO HOURS OF DOING MY TAX RETURN; THEY CHARGED ME \$7.95.
933710	I tried to use your website to find a way to file my taxes for free. in the state drop down menu on this screen http://www.irs.gov/app/freeFile/jsp/wizard.jsp ? I was unable to find my state... VT.... so do i have to file taxes? ;) or is the state exempt this year!! THANK YOU!
933894	I have tried to access the companies listed but only get cycled back to your home page. What is wrong?
933992	Vermont isnt on the list of states when you choose "guide me to a service"
933996	I am using the turbotax website under the free alliance and it is asking for payment at the end of 19.95 and not sure why because when it gets to the summary it says that the federal filing is free, but won't let me submit it. Please check into this. thanks
933330	I just tried using the FREE HR Block site to efile my taxes, I got everything loaded and correct then they wanted to charge me 11.95 to efile, they claim to be free but are requiring the 12 bux to efile!!
934331	I tried to sign up with H & R Block web site for the free tax filing, as I meet the qualifications. I went in and created my user name and password. It then send me to a site to log back on. I put in my user name and password and it went to a link that said return to taxes, when I click there it just send me back to the log on site again. I tried three times and still get the same thing. If H & R are going to participate in this service, they should have their program up and running to use.
934362	I efiled through free efile on hrblock website rerouted from your website. When I got to the end of efile they asked me for \$29.95. I thought free meant free not \$29.95. I made under 34,000 which was the requirement for the free efile.
934478	I have had nothing but troubles with the free e-files this year.i went into TurboTax.and had troubles and then told them in there feedback.how i would not try and use there site again..and then in my e-mail with in that hour.i received a e-mail from a different tax service.trying to get my bussness..i do not like the spam mail like others but what got me was..the name they called me by in the e-mail was the I.D. name I used in TurboTax..that was put in to turbotax site on a secure page..where i was thinking it was going no where else..I found out that they gave this information out to others..i can only wonder what other of my tax information they gave out..I went that e-mail back to Turbotax in there feedback form.as lam writing to you in...wish i would of saved the e-mail now but i did not...I come in to give this e-file another chance so I went to HR block.I have heard of them..I went in and put in a I.D. name and when I click to enter it..it all locked up on me.. just having one hell of a time with this this year..others i have talk to every thing has went smooth.i do know that you do not have any control over these Tax site.. but i did think you should know about TurboTax and them giving my information to other from a secured site form..they did that after i told them i would not use there site..mybe its just another site of theres with

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Reference #	Question
	a different name.but it just does not seem right to me...thank you for your time mike markuson
934640	I was just browsing the "free e-filing" programs and amazingly, all of the offers are for online filing only. Isn't this a problem? If the returns are stored somewhere out over the web - aren't there security concerns? I would actually be more willing to do this if the programs could be downloaded, allowing me to do the return on my computer - in a secure place - and then connect directly with the IRS. My guess is that this hasn't been thought through well enough. Everyone that does this will have their SSN and all personal information on someone else's server somewhere. I don't like that AT ALL. With all the hacking and insecure programs [read - Microsoft] out there, what happens when this creates a major security snafu? Millions of identity theft cases? Think this through better and allow for these programs to be done locally. The concept of free e-filing is definitely a step in the right direction - but I think security is still at risk.
934829	I would like to know why you advertise free efile and then when I access the page there is a charge to electronically file a tax return.This is false advertisement. Please explain.
934953	Hello, Why is turbo tax charging to file? I went through your web site and they are charging to file. Joe Schkeryantz
934844	Your Free File page - TaxACT.com doesn't show a web site link - it is the only company that is missing their web link. Please fix ASAP - this is my preferred company. Thank you.
934843	Yahoo has an article about the new IRS free electronic filing. The web site URL they cited "does not exist" according to your IRS web site: http://www.irs.gov/efile/article/0,,id118986,00.html I was unable to find the page by searching the site Please tell me the correct address! Thank you.
934886	Is FreeFile for the year 2004 or can it also be used to file for previous years? If it can be used for previous years, how is this to be done on the computer? Thank you.
935668	I filed my daughter's income tax return through the free file page on Jan. 18, 2005, the first day it was up with H&R Block as a returning client. Her income is way below \$34,000. They charged her \$29.95 and deducted it from her checking account. I have e-mailed them 3 times and cannot get anywhere. They just respond with a generic response about how to free file. Was there a glitch that day or is she out the \$29.95? Thank you
936985	Any idea as to when the free file system will be up and running? It states on your web site to come back on Tuesday, January 18, but today is the 19th and to no avail.
936350	I tried free e filing from the list offered. Used Turbo Tax "Free" but it won't let me file the Federal without paying \$19.95 for the state. Is there really a free e filing link? Isn't this false advertizing?
937038	Whom It May Concern: I read in my local paper (Kansas City Star 1/19/05) that the IRS would provide free tax prep software this year and that this software was available on the IRS.gov website. I can not seem to find any info on the site about this software. Can you please point me in the right direction. Thanks, Walker
937035	In re: to efile free, you state check back on 1-18-2005, well its 1-19-2005 and still no information.
937293	I understood that the free e-file companies would be ready to search on Jan. 18 2005. I can not get through and as you can see this is Jan. 19 2005. Is this going to take longer than first projected?
937302	So far I have only wasted time with this web site trying to e-file. It goes around in a circle and never gets anywhere. You click on efile, then free file but there is no start button like the site says nor does it give you a user list to choose from as stated on the site.
937394	Is the efiletaxreturns website working properly? I have not received a email response from them. It's not very user friendly. They do not have a Q & A section, reference, nor resource guidance. They have a telephone number for customer service but you will be charged a minimum of \$10.00 to talk to them (ridiculous).
936856	The date for free file to be available online states "Jan. 18,2005. The sight is not available today is Jan. 6,2005. When will this service be available?

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Reference #	Question
937103	why can't I get into freefile??
936915	I am trying to access Taxact.com to efile free, but, it seems as they are trying to charge \$7.95 to file even though I am using the IRS free tax alliance. Any help or suggestions? Thanks
937550	There is a listing on your Free File page of preparers that offers free federal filing for AGI of \$28,000 or MORE. Shouldn't this be or LESS??? Web site is www.efiletaxreturns.com
937808	I recently read that TurboTax would be available as a free file partner. When I visit your website, they are not listed. Any idea when this will be available? Thanks, Kathy
937890	I filed my taxes on line and was setup with turbo tax. I have been trying to get into my info for the last two days. They keep saying my password isnt correct and keep sending me to my email to reset my password, but it isnt working all I want is to get a copy of my federal and state forms and find out if the forms I did were approved. I am sorry to be asking these questions of you, but there is no email or phone number to get ahold of turbo tax. can you help me?
938062	I could not find a more appropriate place to submit this complaint. I trust that you will know where to forward this, if this is not the right department. I have tried four times today, twice with two of the companies (H&R Block and TurboTax) claiming to do Free File listed on your site, to do my federal taxes online. Upon reaching the end of all four attempts, I was notified I was going to be charged for filing my federal taxes AND for my state taxes. I have filed complaints with both companies, especially since trying to get help through both companies' customer service dept help chat functions was no help at all. (The best I could get out of anyone was, "I don't know why that happened. I recommend you go back to the IRS site, choose us again, and start over by registering a new user name and go through the entire process again.") I am complaining to you because I don't believe there should be a link to a service advertised as free on this government site if the service is not actually free. Please consider removing the links to H&R Block and TurboTax.
938085	I can not find your link to the companies that provide free on-line preparation. Please help.
938169	Intuit's FREE filing wont let me file without supplying credit card info. What part of FREE am I not understanding?
938477	I have started preparing my taxes using the irs Turbo Tax for the web customer. I want to bring it up again to do some more work on it but I am unable to figure how to get the screen that allows me enter my password to bring up what I have started.
938566	Recently on a news program there was a report of a free copy of Turbo tax at the web site www.irs.gov. I can not find any place on your web site to down load of the free copy. Now what?
938714	apparently to qualify for thier "no restrictions! everyone qualifies!" you must create an entirely new account. i used the one i used to free file last year and was subsequently charged 29.95 for essentially importing my name address and birthdate. initial contact with customer service was yielded no resolution. just thought you might like to know that one of your vendors is charging people on a vague technicality that is not obvious on either the free file page or the hrblock.com page. john carlisle
938707	Hi, This is nothing specific to the website, just a complaint that the IRS does not provide e-filing through its own website for free to everyone. Last year I submitted my federal taxes through some rinky-dink free tax-prep company website, and it turned out fine. I'll probably do it again this year. But I'm disgusted year after year to see that the IRS has not set up a universal, secure, free e-filing system open to everyone. I think it could be done cheaply and easily, and that it could be just as secure as any of the fly-by-night companies that currently provide the service to people who qualify. The company that I used last time provided an adequate but amateurish system for entering all my info. I'm sure if they can do it, then the federal government could do it at least as well, probably better. Hell, look at irs.gov. I've found forms and information and answers to questions when I needed them. The instructions on that tax prep company website were confusing, and I ended up doing my federal taxes online, my state and local taxes through regular mail. The only

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Reference #	Question
	explanation for these extra layers of confusion and bureaucracy and middle-men seems to be the profit that will go to tax prep companies through the current scam. I hope that the politicians or IRS officials who continue this backwards policy will someday stop being paid enough to maintain the scam, or that the levels of extra bureaucracy will be so absurd that they'll realize it will save time on your end just to have one system by which everyone can e-file. Sorry for bothering you. I don't expect any response, but I have to get this off my chest every few years. It would be cheap and easy to institute a reliable system for free e-filing for everyone, and the only reason I can figure why it hasn't been done is that the scam is too profitable for some people. Thanks, Rob
939374	If I use the new IRS Free File, can my wife and I complete forms using both methods, Jointly and Separately, compare the results, and then file the method that is best for us? Will the program allow one to save one completed form without filing, so as to complete another form? my e-mail is dicnlin@cox.net
939389	How do I access a free filing website from the irs website? Everytime I hit on the link it says I am leaving the IRS site?
938994	Why is there no link or direction on the page that tells about the Before Getting Started These are a few important points you should know before starting the Free File process. Nothing tells me how to get there??
939801	Greetings! I was trying to e file (free) my tax return thru H&R BLock, but they are asking me for a PIN Number. Welll, I have been surfing the IRS website and I cannot find information in how to get that PIN Number.
927961	This is in regard to the free filing help that is on your website. I used eztaxReturn.com and it seems to be a total fraud. When I filled out my return and hit submit, it erased the form and left me with nothing. I tried to call it back up and it kept charging me another fee but still no completed form. I do not know what action I have to take because now it is in the \$50-60 Dollar range and I have nothing. Thank you. Patti at above e-mail.
939521	You offer free filing of tax returns on your website. When clicking on this link, several different links appear that say they will file your tax return for free. I have clicked on several of these links (and gone through the whole process with two of the services) only to find that they charge a fee to either complete the return or to file it. Please investigate all links and if they do not offer free filing, please take them off.
923684	Hi, When will the page be up where you can check if you can E-file free? Today is January 18th.
923748	Free File Home - Your Link to Free Online Filing We are currently performing system upgrades for filing your tax year 2004 federal income tax return. Check back on Tuesday, January 18, 2005 to see if you can e-file... Free! TODAY IS JAN. 18th...
923762	Why is the free file not available yet. The date is the 18th... it should be ready. Please let me know when you plan on having it up.
928234	To Whom It May Concern: I read in my local paper (Kansas City Star 1/19/05) that the IRS would provide free tax prep software this year and that this software was available on the IRS.gov website. I can not seem to find any info on the site about this software. Can you please point me in the right direction. Thanks, Walker Woods
928489	I tried using the FreeFile Guide Me To A Service wizard. After entering my info and clicking SUBMIT, it brings me back to the top of the same page with all my info erased. I expected it to display a list of free tax filing services that I might qualify for.
940256	These so-called tax return sites are a joke! For example, H&R Block advertises a free online filing, when in fact, it is not free at all. All I wanted to do is submit my already completed return online for a speedy refund. All they did was ask me a lot of privacy questions, talk about steps that I should take in filing--information I certainly don't need from them. I simply wanted to use H&R as a conduit for filing electronically. I can't believe the IRS allows these e-mail sites to operate. I am a retired 79-year-old man who files a very simple 1040A return; I certainly don't need H&R Block to do it for me. I thought you should know my feelings about all of this. I'll mail my own completed 2004 return, thank

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Reference #	Question
	you
926217	I am trying to go to tax act link from your web site. But it keeps telling me there is an error
923970	Hello, last year we went to your site and were directed to several different companies that helped us file our taxes online for free. I am not sure where I found this service, but cannot find it this year. Last year we used turbo tax and it was wonderful. Any help would be appreciated. Thank you
923978	in reviewing the free e-file offerings, I came across the following highly misleading statement: TurboTax® for the WebSM: Free federal online tax preparation and e-filing for all taxpayers. No restrictions. Everyone qualifies. It took a little bit of digging, but then I discovered this on the TurboTax website: Filing fee is charged through the Intuit Tax Freedom Project SYMPTOMS: You are being prompted for payment when attempting to file or print an Intuit Tax Freedom Project return. Possible Causes: The taxpayer does not meet the qualifications for the free return. To qualify, one of these criteria must be met: Taxpayer qualifies for the Earned Income Tax Credit (EIC); or Taxpayer earns \$35,500 or less; or Taxpayer is serving active military duty (including Reservists and National Guard) and has a 2004 Form W-2 from the military. The taxpayer is filing a return for a state that does not participate in the Free File Alliance program. Participating states for tax year 2004 are: Alabama Arizona Arkansas Georgia Idaho Iowa Kentucky Massachusetts Michigan Minnesota Mississippi Missouri Montana New York North Dakota Oklahoma Rhode Island Vermont West Virginia States not listed above do not participate in the Free File Alliance program. TurboTax for the Web was accessed through a Web site other than www.statetaxfreedom.com. TurboTax for the Web Premier is being used. The Intuit Tax Freedom Project is only available through the 1040EZ and Basic versions of TurboTax for the Web. RESOLUTION: To qualify for the free file offer, make sure that your tax return meets all four of the criteria above. Most people who go to TurboTax from the link on www.irs.gov won't be as thorough in checking out the company's offer. I suggest that these links be more honest. I truly wish to file my taxes for free or for no more than the cost of postage. Until that's possible, you will be getting a paper return from me. A taxpayer who has filed her own tax returns since 1975.
924841	Your "About Free File" web page states: "Access the Free File services by selecting a company from the IRS.gov web site" Your web site is as enormous as the tax code itself. I can't find the list of companies anywhere. Please help. Sincerely, Pat
924937	Hello, My name is Kim . For the past few years I have been using the Free Turbo Tax On-line due to my low income, and cannot seem to locate the site the following year. I save the site on my favorites list for the next year, but it comes up not found. It seems last year I went to this site and was able to find the free site for low income families. Can you direct me to the free site? Would greatly be appreciated. Is there a way to get an e-mail reminder for the new tax year with the updated free site? It would be a great help. I know that sometimes the site is not available till the end of January. Could this be why I cannot locate it? But it seemed that last year I was given a notice when logging in, that it would not be available till sometime late in January. Your help would greatly be appreciated. Thank you,
925015	Your web site says that there is FREE FILING of tax returns for 2004. I have looked up all of the companys listed and they ALL CHARGE \$29.95 or more. I do not call that free. Why are you misleading the public into thinking they can go on line and file their taxes and not pay anybody. That is not a true statement. (Of course maybe you don't think \$29.95 is any money)I am not happy with your web site. I am not happy with your booklet that says we can file e-file free. That is also a lie. Why don't you get your facts correct before you print your books.
925106	I should be able to email my tax forms in WITHOUT PAYING H AND R BLOCK OR TURBO TAX. I should be able to download the forms and send them without paying a fee. This really is upsetting to many Amercians. This is upsetting to the Tax Payer Advocate as mentioned in her report to Congress. Why hasn't this changed? Furthermore, why can't I

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Reference #	Question
925359	<p>contact the Advocate by email to voice this concern? David duest@msn.com</p> <p>I have been waiting to obtain more information about the "Free File" program being offered by the IRS and its partners. When I go to the IRS.gov home page and search by keyword, I pull up the "Free File Home - Your Link to Free Online Filing" page. This page states that there are currently system upgrades being performed and to check back January 18, 2005. Well, it is January 18, 2005 and I am curious to know if perhaps I am just not on the correct page? I want to see if I qualify and get started to use this offer. Can you please explain or point me in the right direction? Thanks so much for your assistance to my request. I appreciate hearing from you in the very near future. Laura D. Easter Assistant to Gregory P. Forney, Esq. SHAFFER LOMBARDO SHURIN 4141 Pennsylvania Kansas City, Missouri 64111 816.931.0500 816.931.5775 Fax leaster@sls-law.com E-mail The information contained in this e-mail is attorney privileged and confidential information intended only for the use of the individual or entity named. If the reader of this message is not the intended recipient, or the employee or agent responsible to deliver it to the intended recipient, you are hereby notified that any dissemination, distribution or copying of this communication is strictly prohibited. If you have received this communication in error, please immediately notify by using the "reply to" and return the original message to the sender. Thank you.</p>
925633	<p>i went to the irs site to try to e-file and as i expected typical government website. way more information than i'll ever need and indirect links to the freefile. can't make easy can you? there is no listing of companies offering freefile software and if there is i can't find them, instead i do find the irs doublespeak about how easy this will be. Why can't the irs offer the software and let me down load it off your site? because that would be easy and it would give enough work for your employees to do. i'll snail mail it again this year, thanks for nothing and wasting my tax money. worthless</p>

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Reference #	Question
940588	WHEN ATTEMPTING TO LEAVE THE IRS WEBSITE TO ACCESS THE FREE TAX PREP SOFTWARE I CONTINUALLY GET THE ERROR MESSAGE TO CONTACT THE IRS HELP DESK. WHAT IS THE SOLUTION TO THIS PROBLEM?
943403	you claim you offer free tax service, but when i click on it you show disclaimer that says once we click on free service we are leaving irs site, thus we have to pay???
958620	I'm having trouble leaving the IRS website to connect to the free e-filing web sites.
949978	I recently did my taxes through Turbo Tax for the Web as I have done for the past two years, and my Federal and State tax was accepted on the 16th of January, but they did something wrong with the copies of my forms, they either did not save them, or they can't transfer the data to acrobat reader, because I cannot access my copies of my returns, actually I cannot get past the federal, because they are not there to view or print. I have paid for this service, yet I am left with no copies. I have been in contact with them numerous times, by phone and on the internet, and they have not resolved the problem. There is nothing wrong with my printer, or acrobat reader, as the first page, the filing instructions page shows up and tells me if I need any further paperwork, which I don't and how much my refund is and where it is to be deposited and I printed out that page, but nothing follows it, my forms are just not there, to view or print. Please help, what am I to do.....thank you.
962347	I used the link provided for TurboTax under the free filing section of your site, it took me to taxfreedom.com. When I finished my taxes it said I had to pay. Upon inquiring with their help chat I was told I had to go through statetaxfreedom.com to be free. You may want to check this issue or change the wording on their listing which say free to all taxpayers, no restrictions
962389	Why do you promote E-Filing then produce one of the most cumbersome and user unfriendly web site Ive ever seen? Really! I was gonna E File but cant for the life of me find out where to do it!!!!!!!!!!!!!!And Im on your irs site
957884	Where are the sites in Kansas City, MO where you can get your taxes done for free?
963755	What is the requirement (income) for free filing of 2004 taxes? Please send a reply asap. Thanks LMcCarthy27
963883	I would just like to inform you about one of your so called free filing firms. Turbo Tax, I went to their web site and filled out the forms and at the end of doing this they informed me that I would be charge 19.95 by a bank in Santa Anna to file the return. I don't know about you but I hardly call that free. I will never try to file my return electronically ever again. Your should remove them from your website.
957418	You list free e-filing on your website, but when I did my taxes using turbo tax, they are charging \$5.99 for federal and 10.99 for state. I think is misleading to tell people that e-file is free and when we go to a vendor endorsed by your website, we are asked to pay. Please advise why do they charge when listed as free? Thank you Sal
964509	Why do you have link to Turbo Tax that says they are free over and over, and then it locks you into a State return, which is 19.95 to get your Federal return. Why do you allow this?
957573	i let a friend use my computer to file a very simple return- he is retired - has pension and ss benefits - NO EARNED INCOME and one of the programs you offer as free gave him EIC - he is now way eligible for it - i told him to close it out and dont let them file it - it was "complete Tax" this will cause irs and the taxpayers problems if nto corrected
954889	Your website still says check back on January 18, 2005 for system upgrades and free e-file options. I assume you are still not e-filing for free as I can not find the "Start Now" button to link me to the web page with the free companies I can choose from. When will the "free e-file" option be available? Thank you!
943830	I noticed in the news that all taxpayers should be able to EFILE free. I guess there is some confusion on this matter as the EFILE sites still show their restrictions. Will all of the EFILE sites now allow taxpayers to EFILE free? I would appreciate any clarification on the matter. Thanks Carl
964755	You might want to take H&R Block off your list of free filing services. They claim everyone

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Reference #	Question
	qualifies for it, yet when you get to the end, they automatically select a fee of 29.95 for you to pay, stating that you "selected" it, and there is no way to de-select it. I am quite certain that I would qualify for the free service, but H&R Block is not offering any free services.
964707	I tried to efile with H&R Block (linked thru your site) and they tried to charge me 29.95. This was after I clicked no to filing a state return and no to having a professional look at my taxes. It should have been free. What went wrong?
962649	You have a company Taxact on your web site for free filing for federal. The federal was advertised as free, with a 7.95 charge for state. But when I got to the filing part they charged my charge card \$15.95. I email them I told them they had made an error. They told me it was not an error. I didn't file on the right web site to get my federal for free. No mater if you go the the IRS free filing or if you just go to taxact.com says the same thing. I also filed a friends a few days later, and they did the same thing again. I believe they are just ripping people off and you should remove them from your web site.
961427	In the H&R Block description of services on your site it states that it is offered for free via email. Yet when trying to use this service it tries to charge me \$19.95 and will not let me send it with out first paying for this service. If they have an agreement of services with you then they should have to comply with them. The copied page from H&R Block says that the AGI is over 100000, I wish our AGI is only 32,424. Please help...see below. Copied from the irs site. H&R Block Free Offer and Company Information: From H&R Block, America's #1 tax preparer: Use our FREE online federal tax return program and trust Block's 50 years of tax preparation experience to help you maximize your refund. Our online program is FREE for EVERYONE - no restrictions. And you get... A fast, secure online program where you answer easy questions. Automatic error checking and automatic completion of all forms needed to prepare your return. Guaranteed 100% accurate calculations – or we pay penalties and interest. FREE customer support via e-mail. Access to tax professionals if needed. Ability to e-file your tax return for FREE to get your refund fast. A FREE customized Block Advantage report for help planning your financial future. Fee-based Offer Information: If you do not access H&R Block's Free File Program through this IRS.gov Free File Alliance website, then a fee for the program applies. Want to get started? Close this window and click the H&R Block link on the main page. Close Copied from the Advice Online of H&R Block site. Return to Taxes Order Summary We're sorry, but you didn't qualify for the IRS Free Filer program because your adjusted gross income (AGI) was over 100000000. However, for only \$0.00, you will receive the following services: DescriptionQuantityYour Price Ask a Tax Advisor 119.95 Total: 19.95 To Return to IRS.Gov, click this link http://www.irs.gov/efile/article/0,,id=118986,00.html *Note: H&R Block provides free electronic filing (e-filing) for returns that meet IRS criteria. We cannot guarantee that your return will be eligible for e-filing or that the IRS and/or state taxing authorities will accept your e-filed return. Print this page Advice & Help What if I don't want to purchase an item on the list? Where do I enter my Key Code? Will I have an option as to how to file my return? Did I miss your offer for an Electronic Refund Advance (ERA) loan?
961565	Why are the tax preparation companies listed under "free filing" charging to file taxes online? If it's listed as a free service it should be so. Turbotax charges up to \$40.00 dollars to file a federal return and Taxact charges \$7.95. If the federal government is going to list these sites then they should be sure they are representing the people well.
943411	looking for the free file program to help file 1040 tax return for senior citizens that I read about in the newspaper.
963289	Glad you are providing a free tax service however, how do I access my return to work on it? Seems to me a SIMPLE my 2004 return option on the home page would work wonders!!!! Michael
942570	i think its very misleading for one you say its free to e-file and its not it cost 19.95 on top of the 19.95 for state which is not right. and then you cant even efile if it not in your name so there for i think your free website is wrong and not very nice to say its free and its not.

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Reference #	Question
953433	I have treid to access the free filing services from the www.irs.gov site, but every time I click the "Leave IRS Site" button, I get an error that reads: An error occurred. Please contact the IRS Help Desk (1-800-876-1715 or email) if this error condition persists." I have tried this on several occasions, at different times of the day and night, and trying several different services. I have used this service for the past 2 years and have never had a problem. Any help would be appreciated.
947223	I am concerned by the company EFILE TAX RETURNS, INC. I read that their filing is free if your Adjusted Gross Income is greater than \$28,000. I filled out all of their online forms (including, of course, my SSN and financial information). According to my calculations, my AGI is greater than that amount, yet when I went to process my return, EFILE TAX RETURNS, INC. wanted to charge me \$24.95. In this age of identity theft, I am concerned that I supplied personal financial information to a company that apparently is misleading. I am looking for clarification into their claimed free service, and reassurance that my submitted information is safe. Thank you for your attention to this matter. Sincerely, Eric
951083	I filled out the free e-mail filing forms yesterday, but today, I wanted to bring it up to revise it and I can't find it, or do I know how to get into the program. Can you help me?
951385	I used taxactonline last year by going through your site, so I went there this year, again through your site. The taxactonline site asked if I wanted last years info imported and I said Yes. I went through the whole form and before it would let me print the form, it said I had to pay a fee. What is going on? I thought if I went through the IRS site ther would be no fee. I qualified for free e-file on this site. Thanks
948476	Hi, When I tried to have a service picked for me one of the questions was which state will I be filing in. Do you know that you don't have Vermont as a choice, therefore I am unable to submit the info.
951808	Your website is like a circle jerk. It is a maze of NOTHING. It keeps taking me absolutely NOWHERE. So where exactly are all the free file companies hidden? You did a damn good job because I keep clicking and haven't seen any yet.
959430	I used your e-file "Free" to file taxes. I chose eztaxreturn.com because adjusted gross income was less than 40,000 - making filing free according to their information. When it came to the state return, it claimed that if your state was VA, then it would also be free. After filling out all info, the site would not allow to e-file unless I agreed to pay \$19.95. This appears to be a scam you may want to investigate. I didn't pay the \$19.95 and let them know that I was contacting the IRS.
962172	e-file is as easy as 1-2-3, not! And it's not "free". TurboTax charges \$14.95 for "free" filing, then if you pay for a stamp and envelope to apply for their rebate you may eventually get that amount back. But I can mail the return for that same stamp and be done with it. I'll file electronically when I can file directly, not via some commercial intermediary that pretends to be free.
960302	The line to the HR Block website to file for free does not work.
945936	When I use the form for assistance with companines for the free file, it clears the form and doesn't give me a list of companies
953053	warning for other users apparently to qualify for thier "no restrictions! everyone qualifies!" you must create an entirely new account. I used the one i used to free file last year and was subsequently charged 29.95 for essentially importing my name address and birthdate. initial contact with customer service was yielded no resolution. just thought you might like to know that one of your vendors is charging people on a vague technicality that is not obvious on either the free file page or the hrblock.com page. john
942376	I went to the Free File site but when I click on the company, TurboTax, it takes me away from the IRS site and says that I have to pay to electronically file. How do I file without paying as the site says I can?
962595	I used your site because it was free. I'm wonder why I am being having \$39.90 deducted from my refund, I only efiled my Federal taxes and it said that was at no cost.

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Week of January 23 through January 30

Reference #	Question
950352	I tried to use the free turbo tax and everything was fine until the last when I tried to submit. Although it kept saying free federal tax return it would not let me submit the form unless I submitted a state report and paid 19.95. When I requested to just submit the federal report it still said I needed to pay. So I quit and went back to the paper.
957786	Your instructions state that I must file through IRS.gov in order to qualify for free filing. However, when I select the tax preparer I want to use (H and R Block), I am instructed to click on something that indicates that I am leaving IRS.gov. How can I stay on IRS.gov and receive free filing, when I am asked to click on something that will cause me to leave IRS.gov?
942956	I heard on a PBS radio station today that the IRS has a free tax preparation computer program for me to use. This program is suppose to be as good as Turbo Tax. Please tell me how I may download this program. Thank you
945430	I was checking out the free e-file for individuals and qualify. I selected to use TURBOTAX on the web. After clicking on their link from the irs.gov site, message says you are leaving the irs.gov and logging into their site. OK then when checking to begin entering user information - message appears "Remember, there is no obligation to use TURBO TAX. You don't pay until you register or ready to file". I thought this service was free??????? Please respond. Thanks. Marlane
957182	I would like to know if I file thru your site with one of the free file tax e-file suppliers is it totally free ??? I am 67 and they say it is free , untill they file. I don't understand what they mean by that. TAXSLAYER.COM and H&R BLOCK both say the same thing, so I stop filling out the form. If I have to pay I'll send my return with the post office. Any HELP will sure put my mind at ease. Thank you
956989	Just to let you know, I have been trying for 2 days to get online and do my taxes. But for some odd reason the page is not coming up. It stops at the part where it is trying to get a secure connection. Now I have tried to access the page on 3 different computers and it does the same on all 3. PLEASE CHECK THIS OUT!!!!
963553	I followed the free file directions and completed my returns of Turbo Tax only to find a \$199.95 CHARGE required at the end of the process. This is NOT free and wasted my time. I had the same problem last year with H&R Block and my response will be the same - to file by paper mail. Can you explain how \$19.95 equals free?
949058	WILL I RECEIVE A PRINT OUT OF THE FINAL TAX FORM FOR MY FILES USING THE FREE TAX PROGRAMS AND E-MAIL FILING????
954677	Your automated free file tax guide wizard is broken as of 1/26/2005. I input the data requested and after submission was returned to the blank form. Sadly, somewhat annoying.
964511	Emailed to taxman@FileYourTaxes.com and you: I do not appreciate the fact that you do not state on the IRS website that YOU CHARGE FOR INCOMES ABOVE 25k! It is only AFTER I have completed the WHOLE process that I find I have to pay! On the IRS website, it reads: FileYourTaxes.com: Free federal tax prep & eFile if you live in AZ, CA, DE, GA, IL, MD, MI, NC, NJ, NY, OH, OR, VA, WI. Also qualify if age 18 AND less. More details NO WHERE does it state you have to pay for e-filing the Federal tax return until you navigate to another section of your website. Not Nice! You have wasted my time. I will notify the IRS of your website. Thanks for nothing.
954699	I am disappointed in the Iowa Department of Revenue, Turbo tax and the IRS. The Iowa Department of Revenue website indicates that I can get free e-filing if we contact Turbo tax through your its website and enter the free file code. The IRS website indicates that you can get free federal filing through Turbo tax only if Turbo tax is accessed through the IRS website. So I accessed Turbo tax through the IRS website to do the federal taxes and get free federal e-filing. I then accessed Turbo tax through the Iowa Department of Revenue Website to get free state e-filing. Turbo tax will not accept the state e-filing because when I try to e-file, I am informed that the state and federal tax forms need to be e-field simultaneously or the state return cannot be e-filed. It is impossible to access Turbo

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Reference #	Question
	tax through both the state and federal websites at the same time. Paul
946372	When I went to the esmarttax site and tried to file a free federal return, they tried to charge me \$9.95 after I put all my info in. I thought this was supposed to be free. Are they being deceptive and guiding us to pay services?
961108	dear sirs: went to the h&r Block site for a free filing. It is a misleading ripoff!! After 30 minutes filling in questions they inform me that i can not e-file unless i filed with them last year. They do not offer a free PIN. They offer a signature thing where I must mail my signature to them. This should be explained at the beginning, before I spend my time filling out the tax data. thank you, Steve Brown disgruntled citizen
964745	What us the income level for free e-filing?
943452	how do i access a link through IRA.gov website without going directly to it??? i have to do this to get "FREE" efile status.
947976	Why is turbo tax charging to file? I went through your web site and they are charging to file. Joe
943840	The H & R Block Electronic file website for free file is not working. I have made several attempts to entire my username and password Correctly and I am continuously being denied.
946474	I went through this web site for the free filing. Turbo Tax said it was free for everyone. I prepared all the forms, pushed send it wanted \$19.95 to process my return. Are all the companies like that, free filing, but you pay for a refund? What's up with that? I just spent almost an hour on hold with Turbo Tax only to find that there is a "glitch" in the system and that it is not free. They of course blamed it on the IRS site. Do they all charge for a refund? Something sounds fishy to me!!!!!!
941543	Just a comment. I tried e-filing with TurboTax. I went through both the fed and the state forms. I was willing to pay the \$19.95 fee for the state (Illinois) filing. However, the program told me that I was not eligible to e-file in Illinois. After many attempts to identify and correct the state problem, I gave up. The program would not send my federal forms unless I paid for the state forms. As I see it, I can file "free" federally only if I pay \$19.95 for a state filing that will NOT be done. I don't really consider this offer as "free".
959300	Went to free file through Complete tax was assured that for \$34.00 would get quick refund then was denied with no explanation and charged an additional \$9.95 also with no explanation.
941634	I really like the free tax filing sites available to the general public through the IRS website. However, this year I encountered a problem with one of your "free" sites, TAXACT online. I used this service last year. When I went to access this site through www.irs.gov I "ran" into the problem. Since, I had used that service last year, it would not allow me to register to use their system free. I attempted to sign on through the free tax filing button and it denied me access, as I was using an ID and PASSWORD that was already assigned. Therefore, when I used the ID and PASSWORD from last year on the right side of the screen (without choosing an option) their system upgraded me to their DELUXE EDITIION and attempted to charge me \$9.95 to e-file my US 1040. I contacted the company and they told me I chose that option; which I did not. I believe they may not be abiding by their agreement with the IRS on free file. I can be contacted @ 217-227-4540 home or 217-524-4100 work (7:45 am to 4:15 pm CDT) or by email at the above email address. Thanking you in advance for your assistance. Lynne Foster
942194	The site lists companies which state that it's e-filing services are "free to all taxpayers" without restrictions" then when I tell them I need 1040NR - they reject my filing? eg HRBlock Is this correct?
942238	How do I get to the free efile site everything I click you have to pay Please advice if possible step by step I will greatly appreciate it
960543	When I use the form for assistance with companines for the free file, it clears the form and doesn't give me a list of companies.
963344	Hi we are a low income family, i am on disability and my wife is working--we are looking to

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Reference #	Question
	find a place where maybe we could have our taxes done for free--we are in Grundy county Illinois, we would appreciate any information you could send us Thank you--
954656	I just want to inform you that Turbo Tax will not let you electronically file your federal tax return for free as it is stated on your web site. I accessed turbo tax thru your web site for the free filing. I only wanted to file my federal return because they charge \$ 19.95 to file the state. If you do not file the state and only file your federal the program will not let you electronically file unless you give them your credit card information or agree to have the fee deducted from your refund. I think this is false advertising on their part. The program will not let you file your federal return free as it state. This is very misleading!
945238	When I try to go from the irs. site to an individual company for free e filing I get an error notice. Are you having difficulty with your web site?
956464	CAN YOU TELL ME WHY H & R BLOCK IS REQUESTING A CREDIT CARD # TO FILE A RETURN WHEN I QUALIFY FOR FREE FILING, ACCORDING TO THEIR STANDARDS? IT WON'T LET YOU FILE UNLESS YOU GIVE THEM MONEY FOR FILING FOR FREE. THANKS, TLC
963518	I have a complaint about the Free File links on your page. Many of the sites say free preparation and filing for everyone, but I found that by using Turbo Tax through your site, that they allow preparation and filing, but charge \$19.95 for direct deposit into your account. They do this by entering the Santa Barbara Bank and Trust account numbers for the deposit of the money, and then charge \$19.95 to send the money to your checking account. They do not explain this anywhere on the site until you are about to file and then they ask- "Do you want direct deposit?" I believe that this is intentionally misleading and that they are using semantics to get around the "free" claim. I think the IRS has a greater responsibility to the consumer to have these companies inform the user of the way they do business. You should not have to ask yourself "What's the catch?" and then figure it out after you have spent hours on their website inputting your information. Thank you.
959022	I purchased TurboTax software for my 2004 tax filing and they charge 14.95 for e-filing. But when I received your card about free e-file I gave it a try and used TurboTax online for preparation and when we got to the free e-filing they wanted 19.95 for tax preparation.....Is e-file really free?
963763	I HAVE SPENT THREE HOURS ONLINE WITH TURBOTAX WEBSITE TO FILE MY TAXES TO FIND OUT AT THE END THAT THERE IS A CHARGE OF \$19.95 FOR PREPARATION AND \$19.95 FOR E-FILING AND REFUND FEE. I AM ANGRY BECAUSE I WAS LEAD TO BELIEVE FROM YOUR WEBSITE THAT TURBOTAX DID NOT CHARGE TO E-FILE FEDERAL TAX RETURNS!!!!!!
964666	I have started to do my FREE taxes online and saved it. Now I got back online and I am trying to finish it but I see no where to sign in and complete. What do I have to do? Start over?!?!
961051	After you hit "free file" how do you reach a company that may help you file your income tax? What do you click on to reach the company?
964571	H & R Block's software allowed me to enter and file my information but I can not print my return at all. The Help Center on their site also does not work. I have tried to contact them at the email addresses from the email confirmations sent to me, but have no luck in reaching them. Is there any suggestions on how to handle this problem. Their software was also calculating the itemed deductions incorrectly and should also be fixed.
947857	I started on the free efile IRS, and saved it, but I cannot figure out how to get back to the site to finish the return.
955368	I went onto HRBlock website through the irs website to receive the free online service. When I completed my return, even though it said it was free I was charged \$29.95. What can I do about this false advertising?
956908	I can not get into the site that gives free filing sites. It says the page has been redesigned. where do I go? MY address jjohnson3925@shertel.net Thank you
944135	I was told by an H&R Block Representative that I could file my tax return thru this address:

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Reference #	Question
944390	<p>www.irs.gov/efile/article free? I tried using the free file assistance tool at: http://www.irs.gov/app/freeFile/jsp/WizardHandler.do?age=44&spouse_age=&agi=26000&state=NJ&w2=1&elig1040ez=no&eitc=no&military=no&refund=no&refund_amt=&submit=Submit Every time I click "submit" I just get the blank form again.</p>
949329	A co-worker mentioned that he read in the USA Today that a free copy of Turbo Tax would be available to everyone for download from your site (ww.irs.gov) this year. If this is true, please provide the link because I was not able to find it. Thanks for your help. Rob
950719	I tried free e filing from the list offered. Used Turbo Tax "Free" but it won't let me file the Federal without paying \$19.95 for the state. Is there really a free e filing link? Isn't this false advertizing? Thank you.
955964	I am writing to inform you of some VERY misleading information placed on your website by H&R Block concerning their free e-file. It states that it is free for anyone and there are NO restrictions. Come to find out this is not true. I used H&R Block's free e-file last year. After completing their program again this year, it required me to pay 29.95 to complete my return. Before filing I entered a chat session w/ an online help rep. I was told that since I used the program last year, I was not considered a new user and if I wanted to use the program again for free I would have to create a new username and password then complete the entire tax program again. I chose to pay the fee and called H&R Block's online customer service line the next day. They told me that since I had logged in to their website just to see if I could access my 2003 records, that this was considered my first tax login and therefore voided the offer for free efile, even though when I went to complete my return I linked through the IRS website. After my representative spoke w/ her supervisor, I was told I would receive a refund for my fee, BUT I thought you should be aware that their advertisement for free e-file for EVERYONE with NO restrictions just is NOT the case. I would imagine that there will be many very upset consumers with their little "gotcha". Thanks for your time! June
959426	Lady has called twice and sent email in for this problem. She is having trouble with going from the IRS e-file logo into Turbo TAX free file link. She keeps getting an error page. Has cleared cookies, cache, rebooted. Not sure what else do to and would like some help with this.
960265	The link to the HR Block site to file for free does not work it is broken. http://www.irs.gov/app/scripts/redirect.jsp?dest=http%3A%2F%2Fwww.hrblock.com%2Ftaxes%2Fpartners%2Fgov_ff
960575	hi, i was so excited to hear about free E filing, and i told all my friends. But after i filled in all the data and went to efile it to you, they said "PROCESSING FEE" \$20.00. Charging 20 bucks to process a free e file, is the same as charging my 20 dollars to e file. this was through turbo tax free e filing service. you might want to let people know that even though e filing is free, they do still charge you a processing fee.
953606	I recently saw a news article that the IRS was offering free access to over 15 software packages that individuals could use to prepare their returns. (e.g. such as Turbo Tax). However, I cannot find any reference to it on the irs.gov web site. Can you please provide me information relative to this free access and how I can find it?
964109	I am trying to prepare my taxes of one of your links that are supposedly free. I went through H&R Block and they are telling me that it will be \$29.95 for the preparation of my tax return online. I thought that if you go through the Irs.gov website, it is free. Please let me know if this is true. Thank you Donna
955091	"#1 discount tax service" website for free e filing keeps asking for my credit card info every time I resubmit my corrected return. Are they running a scam you aren't aware of. I thought all vendors on your website were free of charge for their service. I'm better off sending my return the old fashion way via mail
964211	Re: e-file I've used Turbotax for over 10 years. I would be happy to submit my return file online if there were no charge to do so. A rebate coupon that comes with the product is

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Week of January 23 through January 30

Reference #	Question
	only good for 1 return - I have 3 children that I do returns for in addition to my own, and why should I have to pay then try to get a rebate. IRS should make it possible to submit the file free of charge. As it is now, and has been, I will continue to submit paper forms.
949748	free file alliance companies,guide me to a service. It asks for a state, VT is not listed as a choice
953909	Just to let you know, I linked through the FreeFile on IRS.gov and went to H&R Block to file my taxes for free. I DID NOT GO STRAIGHT TO BLOCK's WEB SITE - I WAS VERY CAREFUL TO NOT DO THIS. However, when I get to the end of filing my federal return, H&R Block is requesting \$29.95 from me. I refuse to pay, so I guess I will have to start over with another company. My adjusted gross income is under \$16,000 so I am sure I qualify for the free file from H&R Block. This may just be a computer glitch happening today, but I need to let you know about this. I even clicked on the far left area of Block's site to do the free file.
954242	I read where it is a little known fact that an individual could use Turbo Tax free at IRS.GOV, click on Tax programs. I can't find it on this site as advertised.
957264	Hi I am trying to get to the free file web page, but it does not open up at all. Is there a problem with it? Thank you Tori --
963775	In the free tax file section there is a reference to the possibility of having to pay to file state taxes. I called the irs 800 number and no one was able to expound on this particular issue. I know that my state also offers free online tax filing, but my question was, if filing for online for free with one would cause a charge for filing the other online? Could I get an answer to that question here? Thank You.
957435	To Whom it may concern I recently read an article in the local paper which said the IRS and some software companies have come to some agreement for tax payers to get free tax software. Is this true, and what are details? Thank You
964346	After I file my income tax using the free file options I can not find the site to check on my income tax filer went back to the web address that I use the day before to file my taxes but there is no sign on. How can I find out about the out come of the free online tax service, I have my user Id and my password but where do you use it to get back to your file.
946024	On your free e-file page, the link to Turbo Tax does not work. It gives a blank page. Thank you!
955022	While trying to select a site to prepare a "free" e-file,three different sites all mention FEES. Is this free or not?????????????
961018	Turbotax is not free for filing through this site. I was surprised to see a \$19.95 fee tacked on at the end for processing. Not cool. They shouldn't be represented on the free filing page.
961057	I want to send a question on preparing my tax by e-mail to you but there is nowhere in your web site that I can find that e-mail address.
960020	Consumer has called twice and sent email in for this problem. She is having trouble with going from the IRS e-file logo into Turbo TAX free file link. She keeps getting an error page. Has cleared cookies, cache, rebooted. Not sure what else do to and would like some help with this.
941260	I went to the Turbo Tax site from yours and it wouldn't allow me to create a user profile. When I did instant messaging with one of their reps, trying to get help, he sent me to another site for help. They said they would reply within 48 hours. I had already started filling out my personal info, including 3 social security numbers, and now can't go any further. I am really concerned about where that info is now and also wondering if this free filing really is available?
951545	I have prepared my 2004 federal tax return with H&R Block....i linked to their serive THROUGH the www.irs.gov site....it is SUPPOSED to be free...and it WAS free when i filed thru them last year too...but when i got to the end, they try to charge me \$29.95 for my FEDERAL tax return.... How can i remedy this and let them know its supposed to be free? Because any customer service number they list, costs like \$19.95 per question....i

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Reference #	Question
	think thats really unfair. Please help me get the \$29.95 off my bill, so i can finishing filing.....It is important for me to file this soon.....so please respond ASAP
952133	I am preparing my taxes through Turbo Tax and I would like to get the Federal return done for free through your website but I already signed up before I heard about the free way. I was wondering if you would have the promotion code I could put in the turbo tax to get mine done for free?
953404	The "free" tax filing cost \$25 dollars through Online Taxes which is a link on your web site as a "free" on-line filer. I qualified according to their guidelines and was charged \$25 in fees but not untill the very end after having spent more than 2 hours completing their information. You may want to remove them from your government link as it is not a "Free" service.
947304	I got this out of our local news paper. It is supposed to be a free Tax preparation form.. However when I try to go to it I get a message saying it does not exist. Did the news paper miss-print it... Thank You David
955405	I tried to you your e-file which is No 1 Discount Tax Return Service LLC I made a mistake when I registered and it carried over to my return on that site and the only way to correct it is to pay them to be able to send an e-mail about the problem or register again and pay the registration fee again I can not believe the IRS would use a service that has no real support for tax payers. I will file a dispute with my bank on the charge that I had to pay to register to use the IRS recomended filling system on their web site. the charge was \$9.95 and it caused my return to be delayed twice I will never use your site and will never recomend it to anyone
950920	When select "Help Me Select A Service" for e-filing. The State of Vermont was not included in the list of available options
951067	I am attempting to file my taxes by e-mail, but all companies appear to have a charge to send the tax filing. Is there not an e-mail address or format to send my tax info. from my personal computer to IRS and have my refund, if any sent direct deposit to my checking account? Thank You Victoria Soto sotomex@netzero.net
951228	Can you let me know why I am unable to open through IRS web site a free e-filing company like TurboTax for the web. None of the companies shown in your list can be accessed. Will that be fixed in the near future or free filing is not going to be available? Please let me know. Thanks.
956206	Why is it that efile is so "safe, accurate,fast" but you charge me to use it. I will efile when it cost me as much as it does to send my "tax return" or should i say "overpayment", by mail. wake up and smell the roses.
963417	you have listed all of the free tax preparer sites for my federal tax return, can you teil me which site will do the state of md. return at the same time as my filing my federal return at no charge. I will be using form 1040. thank you very much MIKE
956586	Why does it say on the IRS web that tubo tax is free for all tax payer and no restriction
963957	I went to the filing service completetax.com, which was listed on you webpage. The information said that if your AGI was less than \$28,500, the service was free. After I had submitted my information and they had calculated my tax, they said that my AGI was over \$28,500. I cancelled and did not file with completetax.com.

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Reference #	Question
966620	I just accessed the Turbo Tax site, through the link here, and it was not UNTIL I had completed the entire process that I was informed there was a fee involved. this is a waste of my time, and actually, in my opinion, borders on false advertising.
966821	Am I missing something? All of the "free file" links you list, stating "file your taxes for free", charge a fee for their services. Could you explain this to me? Thanks, M.
975793	The income tax break for low-income people or families is bs! U said on the news that even single people could qualify but u failed to mentioned that we had to be at least or older then 25!! What a joke that u would actually want to give us, the poor a small break.
979332	This weekend, i linked up to a site through the irs.gov site. I did not finish my tax forms because i needed one more piece of information dealing with education. Yesterday, when i received my T1098T, I went bact to the irs site, however the tax co. that i linked up to was no longer there. I do not remember the sites name, but i do know that there were two that listed all the states they provided free service for, now there is only one. my question is, have any sites been dropped from the irs site? and if so, what about All of my personal info. that i submitted to the dropped site?
979646	I'm sure this is not the right place to send this -- but what would be user friendly about your site??!!!! I have e-filed the last three years using the paid Turbo Tax. This year they have no record of me. So I decided to use the some of the free file sites. Of course, I could not complete any of them. I'm sure if I would go to the paid site, I would have no problem. And we are not talking a complicated form -- one employer, mortgage interest, property tax and charitable donations. I could have completed the paper work several times over in the time I've wasted trying to e-file. You're e-file and certainly you "free file" are a joke. If you want people to e-file, it should be easier than paper filing. It is not!
974312	I tried to use the link to #1 efile discount service and I ended up having alot of problems with that site. I just wanted someone to know that so it can be corrected. I chose to use a different one Online taxes.com and it proved to work much better.
969748	TurboTax is not a free filing service. Only free preparation. [#404106] Thank you, but if you'll reread my letter, you'll note I was not asking for assistance. I was making a complaint about false advertising. Obviously your reply means you intend to let it remain as such. Thanks anyway. Erin
969798	I am preparing my taxes through Turbo Tax and I would like to get the Federal return done for free through your website but I already signed up before I heard about the free way. I was wondering if you would have the promotion code I could put in the turbo tax to get mine done for free? Thank you Stacy
975315	This is simply awful, it really is. I'm just trying to find your e-file site so I can do my taxes. I'm running around like crazy to find where I can fill the 1040A out. You got me going around and around. I give up! Will be sending you the needed taxes information the old, old way, (PAPER!!!!). I sorry but thank you for nothing and all my time wasted, trying to figure out the mess of trying to get to the gov site. I sure miss the TeleFile. P.S. Make it SIMPLE. PLEASE!
976647	I just wanted to let you know that it says on your web page that TurboTax > is free to file your federal taxes for ALL with no restrictions. I did my > mothers taxes with them, and they did file them, however now they are > saying that she is not eligible for the free service as she makes too much > and are trying to charge her \$9.95. Which is it? Free or not? The > entire process went as if it was free until after the taxes were filed and > accepted by both the state and federal. Now, she can not print out a copy > of her federal return without paying.
982868	I was told that I could download a free version of Turbo Tax software for 2004 from the Internal Rrevenue Service (IRS). Is this true? If so, how do I do it.
982950	In attempting to efile through www.online-taxes.com, they are asking for a fee of \$7.95 before I am allowed to file. This service is listed on your site as FREE. Please advise
975402	Just wanted to let you know that this is the second year in a row I tried to use TurboTax to e-file for free (I met their requirements). At the very end, after having completed my

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	return, they make you pay otherwise they won't file it. Rather unethical, since I accessed their site through the IRS site, and it says it's free throughout. Just wanted to let you know...
981650	I would like to share my experience with the e file tax web site. Last night I attempted to assist my son in doing his taxes on the IRS.gov web site, thru the H&R Block tax site. It was suppose to be free. However, about half way through the tax document the site asked if I wanted to upgrade my tax filing by paying \$14.00. I really feel that this is inappropriate to advertise a the e file as free and allow the H&R Block to suggest any form of payment. In addition, one areas of the tax file was misleading when asked if I wanted to apply my refund to next years return. It was so confusing that I had to stop doing the tax return before I could finish. I would like my the data on the H&R Block web site to be deleted. I will have my son send his taxes in by mail. The electronics system asks to many personal questions and take too much time to complete. I spent 2 hours on the site, when it normally take about 30 minutes to fill out the form. Please look into my complaint and get back to me. 202 254 0433 Free should mean free and you should have to give the H&R Block personal information that has nothing to do with filing a tax return.
983978	I am interested in E-filing but Turbo tax is charging \$14.95. Went to free e-file and ran into trouble when they asked for E-mail address. I am doing the taxes for a friend who does not have internet service. Can I file more than one return free with my e-mail address?
982674	I am at my mothers trying to do my taxes with your free e-file. It keeps saying my session has expired and click here. I keep going around in a loop getting no where. How can I file my taxes for free?
982582	I've prepared my income tax return with HRBlock. I logged on through the free file section at IRS.gov and I'm being charged \$29.95 for the preparation! I am a returning client and last year I filed for free as well. I emailed them about 2 days ago, but no one has responded
982628	TURBOTAX IS CHARGING ME THE \$9.95 FEDERAL RETURN FEE, EVEN THOUGH I ACCESSED THROUGH IRS.GOV. PLEASE TELL ME WHAT TO DO TO FIX THIS. THEY ASKED FOR A PROMOTION CODE, BUT I DON'T HAVE ONE. MY FILE IS COMPLETE AND I'M READY TO SEND IT IN.
981085	Hello, I looked into doing my taxes on line this year. I have decided not to. Why? Because I must provide personal information to a computer of a commercial company, and I have worries about personal information being passed through that company. I have a very simple tax situation which allows me to use the 1040 form. Additionally, I know exactly what to enter in each line of the 1040 form, so I do not need a software package to figure that out for me. May I suggest that the IRS provide an on-line service that would allow persons who do know how to figure their taxes and already know what data to put in each line to simply enter the data into an on-line 1040 form directly, which resides at an IRS office. That would by pass the in-between outfits. Citizens would have assurance that the data they give would go into an IRS computer file, not into a computer file of some unknown commercial outfit. Respectfully, Larry
981129	I FILLED OUT MY FEDERAL TAXES ONLINE ON MONDAY 1/31/04. MY PRINTER DID NOT WORK AND I WAS UNABLE TO PRINT OUT MY FORMS. I WAS WONDERING IF YOU COULD E-MAIL THEM TO ME? I AM ALSO UNABLE TO GET THE STATE (NC) FORM DOWNLOADED. MY DCN # IS 00530176040235 THE E-MAIL ADDRESS I USED WAS S763C1065@AOL.COM. OR IF YOU COULD E-MAIL IT TO ME @ WORK THAT WOULD BE GREATTHAT E-MAIL ADDRESS IS CCORBETT@NHCGOV.COM. I HAVE TO ALSO SIGN A FORM #8453-OL TO MAIL INTO YOU GUYS.....BUT I NEED SOME INFORMATION OFF OF MY TAX FORM WHICH I COULD NOT PRINT.....SO I DESPERATELY NEED YOUR HELP IF YOU CAN HELP ME. THANKS FOR YOUR TIME CINDY CORBETT
984256	I suggest you take a look at the H&R Block internet link that states there is no fee for

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	them to efile taxes.. They charged me a fee this year and did not last year. even though I used the same form and service and made even less money this time, my income was less than \$13,000 for head of household. They will not respond to my inquiry of why I was charged a fee. Please examine their advertisement of a free service
981061	Sirs: Today, for the first time , I took advantage of the FREE E-file and I went to 123easytaxfiling.com to file my return electronically with them. The problem is that that website uses a very confusing navigation process and did not take me automatically to the section where you choose HOW you want your refund to be paid. I wanted to use DIRECT DEPOSIT but the navigation system did not take me there and instead, after it asked me to review my return and verify my refund the next step was a button to send the e-file to IRS and that was it. When I realized that i was not given the option to choose direct deposit my return was already been sent. that company does not have any customer service Email nor phone options, you are confined to some generalized Q&A that will not address specific problem questions. In other words... that company failed to process my return properly and I want to file a complaint with the IRS against them because now I will have to wait 6-8 weeks to receive my refund by check when I could have received it in a week by direct deposit. I want to k now if I can call the IRS immediately after my electronic refund is accepted to see if I can request a direct deposit over the phone to solve this problem.
985105	Those are the two items---'free' doesn't really seem to be free, and can you email back the direct link and any relevant information about that. There was something about needing a PIN derived from one's 2003 Adjusted Gross Income. That was dense.
984360	I HAVE JUST SPENT THE LAST HOUR AND A HALF TRYING TO USE BOTH THE TURBO TAX AND TAX ENGINE . COM FREE FILE PROGRAMS. I CAN SEE WHY THEY ARE FREE . YOU CAN'T USE THEM. I CONSIDER MY SELF WELL VERSED IN COMPUTERS HAVING SPENT FROM 1962 UNTIL I RETIRED IN 1988 WORKING IN VARIOUS ASSIGNMENTS INVOLVING COMPUTERS. AND SINCE RETIRING NEVER BEING WITHOUT THE LATEST IN COMPUTERS AND OPERATING SYSTEMS. THESE FREEBEEES SIMPLY DO NOT WORK OR ARE VERY DIFFICULT TO USE. ONE WONDERS WHAT MY EXPERIENCE MIGHT HAVE BEEN WERE I PAYING FOR THEIR SERVICE. thank YOU FOR YOUR TIME WILBERT
984347	I just finished using the E-file program through H&R Block to file our 2004 federal taxes. It was my understanding that this program is free to the taxpayers. However, once completed the above company required me to provide a credit card # and in turn charged me \$29.95. I followed all their instructions and understood there should not be any charges. I used the program last year with no problems. Let me know your comments. Thanks-- Ken
986456	I accessed hrblock through the website. it said Freefile for anyone no restrictions. Yet when I was ready to finalize they told me I owed them \$29.00. How can fix this? They will not respond. Anna
984998	I would like to report a problem with a Free File Alliance company - H & R Block. Their website indicates that preparing and e-filing a return is free to everyone (of course there are upgrades for a fee, but I chose the standard, free process). I accessed their website through the IRS Free File page, and followed all steps to complete my return as instructed. Once my return was finished and I was ready to file it, the company wouldn't let me continue until I chose my method of paying \$29.95 - there was no "FREE FILE" option. Their "chat" services weren't working properly at that time, so I sent an email to their customer service with my problem/question. I waited a day and a half, with no response. I then tried the chat again, and it worked. I was told that the program was charging me for my state tax return (I didn't complete a state return - I live in FL and there is no state tax). She told me to go back to the state section of the website and click NO to completing a state return. I told her I had done that, but she said that was the only thing I needed to do to fix the problem. I had already done that, but I did it again. I knew

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	that wasn't the problem because they don't charge \$29.95 to do a state return if that was really the problem. Of course, that didn't work. I finally gave up after delaying my tax preparation for several days and went to a different Free File company, with great results. I am trying to report this problem to H&R Block, but their customer service contact only seems to be working sporadically at best. I don't know if I am reporting this problem to the correct area, but I felt that I should report it to someone, in case this becomes an ongoing problem for many taxpayers. After spending several hours preparing the return on the internet, it WAS tempting to just pay the \$29.95 to get it done, and not have to start over with another company. I wonder how many taxpayers have paid H&R Block that \$29.95 when their preparation / filing should have been free, just to save a little time. It seems to be an easy way for this company to make a LOT of money while calling themselves a FREE FILE company!
983727	I used Turbo Tax to do my taxes in '03. Can I import my data if I use the free-file version from the IRS web site? Also, can I complete more than one return, or will I need to access the site for each individual return?
983810	I went to a link to H&R Block for free filing. After spending 1.5 hours filing out my taxes, I wasn't allowed to finish until I agreed to pay 29.95 to file my taxes on-line. I am very upset that they are allowed to get away with this. I spent a lot of time filing out my return and I don't really feel like redoing it but I don't believe I have much of a choice.
984751	According to your website, - TurboTax : Free federal online tax preparation and e-filing for all taxpayers. No restrictions. Everyone qualifies. More details However, I was charged \$41.30 by Turbo Tax to complete just my federal return. I did NOT use their State Return service. I was very annoyed that this was supposedly a free service that turned out not to be. After spending 2 hours on my return using their website, I didn't want to start over on another website for fear that the same thing might occur to me.
980089	please explain to me what it means to go through irs.gov for the free filing to be free. if there is a website could you please link it to me. thank you
986954	I was reading that tax software such as turbo tax would be free on the IRS website this year. Where would I access this?
987467	I received an email with my login info: John Mutuberria thank you for choosing No 1 Discount Tax Return Service LLC Your login information is provided below: Use your social security number as your login id Your Password is: moonchildren You may login to your return at any time by going to: http://www.no1-income-tax-return-submitting-specialist.com However, it will not accept my password. What should I do? John
987436	I will continue to send my 1040 by mail for 37cents rather than pay 14.95 and mess with a rebate! Free file should be free and easy!
985920	Can't go from irs site to tax preparers site. Says an error occurred
986163	EVERY PLACE I GO TO WITH REGARDS TO THE "FREE" E-FILE PROGRAMS THERE IS NOTHING FREE ABOUT IT. IE: TURBOTAX.COM STATES FREE FILING YET IN ORDER TO ELECTRONICALLY FILE A RETURN I MUST PAY \$19.95 PROCESSING FEE (EVEN IF I HAVE TO PAY). IF I ELECT TO JUST E-FILE THE FEDERAL RETURN AND MAIL IN THE STATE RETURN, THERE IS STILL A PROCESSING FEE. SO TO SAY THAT THE E-FILE PROGRAM IS FEE IS NOT TRUE. AS A RESULT OF THIS "FREE" FEE I HAVE TWO CHOICES: RAISE MY FEE OR PURCHASE THE SOFTWARE. AGAIN, CREATING UNNECESSARY FEES FOR "FREE E-FILING"
987147	Good Day! My name is Ainsworth Moore and I want to know If I can file for FREE with my Form 1099 B, 1099 DIV, 1099 G and my W2. I am not dependent on anyone. This is my first time doing it myself online! I was also sent a form giving me an option of telefile. What do you all think? Should I go to my local office? Let me know! Have a great day and all the best!
980710	I followed the free file directions and completed my returns of Turbo Tax only to find a \$199.95 CHARGE required at the end of the process. This is NOT free and wasted my

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	time. I had the same problem last year with H&R Block and my response will be the same - to file by paper mail. Can you explain how \$19.95 equals free?
980487	1- How do I add a non obligated tax form to turbo tax? 2- I was injured from work and lost a lot of money even with workmens comp I did receive my normal income cant I write this off as a loss and if yes how?
980654	Ya know, we who believe the government is but a necessary evil, are vindicated whenever we log onto the IRS web site to pay our taxes and find out a "free" filing costs \$9.95 because we have to go to some commercial website. You wicked lazy SOB's should be supplying the software just as you do the paperwork. anybody who doesn't think that our gov't has been purchased hook line and sinker is a fool. a \$2 trillion budget isn't enough to have the software supplies to us?
987148	I picked one of the e-filing companies you recommend. The one I tried was taxengine.com. I picked them because they said anyone could file for FREE. After I filled out my tax form (which took a lot of time, as I am very low-tech), they demanded \$29.95. I had no way to do anything else, all they wanted was a credit card number or bank routing number and account number. This is the 3rd year I have e-filed and I never had any problems before.
979992	COMPLETE TAX HOME PAGE SAYS E-FILE FOR FREE IF YOUR ADJUSTED GROSS INCOME IS \$28,500 OR UNDER. I CONNECTED WITH COMPLETE TAX THROUGH IRS WEBSITE AND MY ADJUSTED GROSS INCOME IS \$24,522 BUT THE PROGRAM CHARGED ME \$32.95 AT THE END OF MY TAX PREPARATION AND BEFORE I COULD EFILE.
979727	Once again I will NOT be using e-file for three main reasons: 1. It is rather expensive - \$10.00 just to file a return 2. It is NOT private - all my information must be first sent to a third party where the information is NOT secure. This third party can do anything they want with my information and my only recourse would be a civil suit. 3. It is NOT accurate - the company that I buy the tax software from has not been able to get my order correct after more than 10 years. How could I possibly trust that they will get my tax return information correct?
974990	This concept seems like a great idea, however I was disappointed with the process when I chose H&R Block. I had given them all my personal information, etc and there was a prompt offering 50% off to continue the process which was \$19. The only option you are offered is yes. You cannot go on with the process otherwise. The company presented the offer as totally free at the beginning. Since I had already spent an hour going through the gov info and H&R block policy and doing their interview, I decided not to experiment with another company. I filed on the telephone which took about 9 minutes in all.
974716	I had a question, can I use free efile. Last year, my husband filed as head of household, and because I did not work, this year, I worked briefly for one month, we made less than \$26,000, but we were just wondering, since our tax information will be different then the way we filed it last year, will we be able to efile with you free efile? Please let me know asap. Thank you. Jou
966758	FAQ I was filing my tax returns on the H&R Block website and it was suppose to be free since I went off the IRS main page. It said everyone qualified and it was absolutely free. Well I went through the whole process and in the end they wanted to charge me 20 dollars. What in the world happened?
969940	THE WEB SITES YOU ADVERTISE AS "FREE" FOR ONLINE PREPARATION ARE NOT FREE. WHY ARE YOU WASTING MY TIME?
970725	I have attempted to file with H & R Block and TurboTax, both through the IRS website, and at the end they both tell me I have to pay. Where is the "free" in free file? I did this last year with NO problem...now it's wasting my time. HELP! Thanks, Tiffany
970796	I tried EZTaxReturn.com for a free file. After getting all my personal information, the site keeps locking me out. I got as far as getting a print out of the 1040EZ, but I can't get back in to get the information to you. When I go to log back in, I am told that I am be

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	diverted to a nonsecured site. So, what's going on? I am not happy, and I'm hoping my personal information is not being used as identity theft.
972211	I really like the free file option. I used the H&R Block program. However, the HR Block computations gave me a tax due that is \$165 less than the IRS tax tables show. My question is: Does IRS check the info on the e-filed forms from the free e-file companies and correct errors? Or do they just refund the amount shown & then later demand the overpayment back from the taxpayer??
972339	This is in regards to the free file program provided through the IRS.gov website. Although it clearly states on the website the guidelines for using each service, TurboTax is not providing what it says it will on your website. On your website it says that everyone is eligible for free file for their federal return, however, once you complete your information in their software all of a sudden there are guidelines to adhere to. I understand that there are guidelines for many of the others, but TurboTax should represent itself in an appropriate manner on your website and accurately describe the guidelines they are using, instead of trying to mislead you and then try to charge fees. Thank you for your time with this.
973721	online-taxes.com still tries to charge you for filing, it is claimed on here (http://www.irs.gov/app/freeFile/jsp/index.jsp) Free federal online tax preparation and e-filing for all taxpayers. No restrictions. Everyone qualifies. Thank you
973847	I went to Turbo Tax free file (thu IRS.gov site)and started filling out the questionnaire. The pages all state that they are "free file". However, I do not qualify for a Missouri free file. So, if I file my Federal 1040 using the electronic Free File through Turbo Tax, but choose to file my state return by mail, can Turbo Tax charge me to print a paper copy of my Federal return so that I can include a copy with my state return?
972352	Your automated free file tax guide wizard is broken as of 1/26/2005. I input the data requested and after submission was returned to the blank form. Sadly, somewhat annoying.
973959	I qualified for free file, and one of your suggested sites tries to charge a fee when you are done. H & R Block tries to charge \$29.00. They should be removed from the free file status
975932	hello I've tried a couple of the sites listed here for "free" filing and what i keep coming to is the sites are "free" to use, but to actually file the federal return involves submitting a payment for the option of filing online as well as being obliged to provide multiple "partners" with my personal/financial information-can you please refer a site that will FILE (not prepare, or "use" the site) the return for free? thank you.
976054	I have been trying to connect to Turbo tax for the free efile for my individual return. The link "Leave IRS site" that you are requiring be clicked after choosing turbo tax does not work. I keep getting an error message with this email help and a help phone number. I called the number where someone told me the link is working for her and to delete my cookies. I did that, also set my browser to accept all cookies and pop-up windows and completely shut down my firewall. What is going on? Pam
973444	Where can I locate the standard meal allowance rate table for California (tax year 2004)? I have thoroughly searched your web site and it does not tell me where the rate table is located. Need this info ASAP for both Antioch California and for Lincoln California --- for tax year 2004. Please help!
978815	I heard a radio broadcast recently (I think it was NPR) and the person being interviewed said that many commercially available tax software programs are available at the irs website to download for free. If this is true, I can't find it on the website. Can you tell me if this is true and if so where to download it.
975515	I feel that I was misled. I used the link on the IRS webpage to use the free services to file. I have done this for the last four years and have found it to be a great convenience. However, this time was different. Upon completion of entering all necessary information, I was informed that to file electronically I would have to pay a processing fee. This has

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	never happened before. I qualify to file as head of household and my income didn't even exceed \$10,000. Yet I was charged for electronic filing and for using the service. This amounted to \$39.99. This may not be much, but to a full-time single parent attending school full-time it means something. There was no indication that I would be charged for anything until I reached that point. This was very misleading. Especially since I have been in the same situation for the last four years and never was charged for using this "free" service. Please let me know what can be done to address this. I look forward to hearing from you. Thanks, Walter
975606	Hello. Through your site, I filed my federal taxes free of charge through one of the businesses you have listed on the free file page. I am having trouble with the one I selected. It is Free Tax USA. I filed on Sunday, I have since received an email from them stating that the IRS rejected it due to an error. I can not get into my account to fix the problem and their "help desk" email support isn't helping either. I went back onto your website and went under the free file again, and I have noticed that Free Tax USA is no longer listed on your website. Why aren't they listed anymore? Are they not reputable? Are they a fraud? Please answer as I am very concerned as all our personal information was given to them and I can't seem to get any help. Thank you
979432	I thought there was a free version of turbo tax on your site but I could not find it.
970388	I began filling out my e-file tax returns this evening but left the sight and now want to return. I cannot find the original sight where I saved the info. Thanks for your assistance
970406	Your form to complete for assistance could not be completed by me because > I do not have a spouse and when I tried to input N/A or 0 it would not > accept that response. > > I don't know why you just want people with spouses to complete the form????
977023	Good job on the website, but I think some of your free tax-preparation services are jacking us around. Used H&R Block last year (free) and this year they walked me through all kinds of unnecessary pages and kept trying to sell me something—it took up my whole day. There was an error (I felt) in the way they handled my SE form, but they would not let me in to correct it. So right at the end I just told them I was going to do my taxes another way and ordered some paper forms. I don't have time to try another free tax-prep service to spend a whole day doing something that should only take 30-40 minutes with paper forms and a pencil. You might consider having some IRS people anonymously use these services and check them for quality
978177	Can you tell me what web sites go to the different Tax Preparation Software such as Turbo Tax and H&R Block Tax Cut. I have been unable to access these at the IRS web site.
978451	I have been trying for several days to find a FREE state filing service and I can not. EVERY time I ask they respond with over 500 results found and when I fo into one of them it always indicates federal free filing. I did turbo tax and it would cost 19.95 to file the state return and the federal was free. Please GUIDE ME to a free STATE filing. Thank you
978540	why do you make it so hard to get to point of filing your tax. I been all over the place and still have not reached the page to fill out my taxes, every page take me some place else. In the book, it says visit www.irs.gov and click on e-file to prepare your taxes. why don't you try that and see what happen
969458	I accessed hrblock through the website. it said Freefile for anyone no restrictions. Yet when I was ready to finalize they told me I owed them \$29.00. How can fix this? They will not respond. Anna
981882	<i>I have spent a better part of the day trying to find where my husband and i can efile for free using the injured spouse form. could you please help me out.thank you for your time</i>
983029	I was told that we could link to Turbo Tax and submit for free by irs.gov. However, I am having trouble finding it. Could you tell me how? Thank You
981928	Yesterday's Wall Street Journal had big article on free tax prep software including TurboTax and Tax Cut. I went to the website - www.irs.gov but could not find it.

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980238	On your "free file" list is Taxslayer who advertises that those who meet certain criteria, i.e. age 25 or under, are eligible for free e-filing of their federal return. However, the only option they give is to pay the fee that they charge for e-filing. They should not be allowed to advertise free filing if in fact they do not offer this service. Please see that they are corrected and that the information on your site is corrected. I have completely wasted over one hour completing my forms on their site only to be told that I have to pay for e-filing. I could have used another site and actually filed at no cost. Now it seems that paper filing is actually the faster method.
981278	I just completed the "free" tax return from HR Block. At the end of this process they wanted to charge me \$29.95. Their customer service people told me I had to fill out something on the IRS site, I could never find this. The link on your site links to their page advertising "free" service, this was not the case as they attempted to make me pay. Just wanted to report this fraudulent behavior that if nothing else wasted a good portion of my time and trust of the "free" e-file process. Matt
981541	Through the IRS site, I went to Turbo Tax to take advantage of the FREE e-filing service. I did my whole return, avoiding the pay options, and when it came down to the wire - time to file electronically, then I was notified that there would be a \$19.95 fee, payable to Santa Barbara Bank - for their troubles in filing my return, paying for Turbo Tax fees, and for Santa Barbara Bank's depositing my return electronically into my bank account. So, Turbo Tax doesn't charge the fee, true, Santa Barbara Bank charges the fee. What a rip-off, what a scam! And, the IRS promotes and condones this?? For shame!!
982327	I am about out of my mind with trying to work with these free efile companies, even companies such as TurboTax and HR Block have serious problems with this e-filing system. I cannot sign in, I can't get them to respond to any issues without charging me "nominal" fees, such as how do I even begin to file with them if it won't let me enter my email address. there is no link to add the email address on the TurboTax system and HR block just sits there after you enter a userid and password, nothing I do lets me into the system. I then went to 123 something or other, got in, was able to put in some of my information and it told me I didn't owe tax, or get a refund. ha!! not only do I get all of my money back, but I also get a EIC and it wouldn't let me go there, or give me reasons it was saying completely the wrong thing. I am about to be more than mad, I cannot understand why you advertise that many people who make what I make, have a child and deserve to be able to file free, actually cannot, at least in a timely fashion. I should be expecting my refund about now, instead I cannot even access their stupid free file system. and they do not respond to questions. check out their forums, everyone is having serious problems with this free file stuff. what is the solution? thanks
982525	I HAVE ALREADY DONE MY OWN TAXES, I JUST NEED TO E-FILE. ALL OF THE LISTED FREE E-FILE SERVICES I FOUND SAY YOU HAVE TO ENTER THE "FREE" PART THROUGH THE IRS.GOV SITE, BUT I DON'T SEE HOW THIS IS DONE. ALL OF THE SITES JUST HAVE A LINK TO THEIR OWN SITE, AND USING YOUR SEARCH ENGINE DOESN'T HELP ME EITHER
982580	I'm from PR, and choosing a provider for those services, found out they don't have "PR" included in their "State" listing to enter the address. I tried H&R Block, since we have them here in PR, but after I'm almost done, their program doesn't support the F1116. So, how can I find a Free e-file provider that fits my profile?
982862	I cannot access any of the links for free 1040 filing services. They all come up with an error message. I would like to use the service. Am I doing something wrong or are the links not working properly?
982920	Hi I thought that if you went on your website that mailing or filing your taxes were free. They weren't it cost to file what did I miss? Any help you can give me would be appreciated. thanks
974427	I would like to file Electronically Schedule C (1040). I understand it is free. What is the website? I could not find it in website IRS Gov.

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975309	I just wanted to say thank you for offering links to free tax filing services. We qualified for the first one we checked out. I would also like to thank you for the assistance that was extended to us. I had to call several times for multiple questions. My calls were handled VERY professionally and with courtesy. As us southerners would say "Thank you for the southern hospitality". My husband used a service to file his taxes last year. He called them to ask for information off of his 2003 return. He was told they were too busy to help him and that it would be 2 weeks before they could get the information to him. Just a suggestion. Y'all ought to implement your own tax filing program. Offer the same guarantee that the others offer (100% accuracy). That would make me feel better as I know you are guaranteeing me I won't have to pay back due to an error on the part of your programming. Also I feel there would be less opportunity for identity theft. It would cut any middle man and get people their money up to 3 days sooner. That is incentive enough for me. It would lead to more efficient processing (which = less \$)and let's face it...noone has ever accused ANY government agency of being efficient or cost effective. God bless you.
980953	I heard that TurboTax (or some other tax prep package) is available for free through the IRS. I could not find it on the website though. Can you let me know where I should look for it?
985144	Hi, I Filed my 1040 online through your site link to turbo tax. I thought it was free! At the end of the session they made me agree to let them take out \$19.95 for filing and another \$9.95 for something else. Also to deposit it into one of there acct's,so they could take the money. I had my CPA do my return so to do it right,All I needed to do was e-file it. Why did they do that. Sincerely,
985314	I attempted to use your free efile service for my daughters return and chose H&R Block. After completing all of their interview questions, I found at the very end that in fact it was not a free service as you had indicated but their was a charge of \$29.95. Her refund is \$100. Your program is very misleading. It takes on an image of a Scam.
975158	Dear Sir: Last year I filed my taxes on line with the 1040 EZ form which is all that is required. I have now tried seven of your suggested alliance partners for free because my adjusted gross is very small. So far I have treid seven of your suggested partners and I cannot get to the 1040 Ez form on any of them. They ask so may questions which do not pertain to me and then they give me the wrong information. I am computer savvy so that is not the problem. I think the reason there are so many stumbling blocks is because they make it almost impossible to do the taxes unless you pay for them to answer questions even if it is a free sevice.This is a joke and you are going to have a lot of people complaining this year.My return could not be more simple. Just a waste of my time. Alice
983231	if your service is free , why did I have to pay \$9.95 ? I filed on 1/27/1905 - D D M
984633	I've been trying to get on the site to do the free e-file but it will not open up that link. I get to the page where it has the "start now" and I select that and it acts like it will open that link which is forever but that link will not open. I would like to know what I need to do to get it to open so I can do that free e-file can you please give me step by step help or give me the link to the technical support so I can get the help. Thank you!
984657	I am puzzled as to why I cannot link to TaxACT.com through the "Free File Alliance Companies" list. TaxACT was available last year and it appears to be available this year, however, there is no link to it. Something is missing. Help, please. Thank you.
984702	I AM TRYING TO ACCESS THE FREE WEB EFILE SITES BUT KEEP GETTING AN ERROR. THE ERROR SAYS TO CONTACT YOU.
984943	I just wanted to let someone know about one of the web sites I went to for free tax prep found on your Free File page. I went to taxslayer.com and filled out my taxes and could not print them out. They said that I had to allow pop ups, which I did, still didn't work, then they said that I had to allow cookies which I did, still didn't work, then they said I had to disable all of my virus protections, which finally threw up a red flag for me. Why would I have to do this just to print out my tax return?? Just thought you ought to know. Dena

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Reference #	Question
	Foley
984710	Everytime I try to access one of the free services on irs.gov for efilng it wants me to leave the IRS website. How do you select a free efilng service and stay in the IRS website. If you leave the website then it costs to efilng. Is this a scam or something. I need to file a tax return. I have spent 30 minutes trying to stay in the IRS website to access the free service and it is not possible. Please let me know what I am doing wrong. How do you do it right? Thanks, Jean
983789	Hello. My direct email is . My name is Brian and I recently filed my taxes with the program "FREE TAX RETURN" and I made an error. I had skipped the state information so when I continued my information was posted that I live in Arkansas rather than where I do live which is New Jersey. So if there is a way that I can edit the state part please notify me at the email i had provided. Thank you. Sincerely, Brian
985640	Dear Sir or Madam, Can I transmit my 2004 Turbo Tax file to the IRS free? How? Jim James Benson j1benison@earthlink.net Why Wait? Move to EarthLink.
980477	I should be able to sit down at my computer and file our 1040 to the IRS without having to paid a third party to do it for me. I refuse (and should not be expected)to give my personal information to a third party just to file our 1040 online. The state of Va has the technical know-how that allows their residents to file online with their personal computer - maybe the state of Va could help the IRS figure out how to do it! The IRS needs to get with the electronic age.
987209	Our local Newspaper from Highlands County, Florida said the we could find a free version of Turbo Tax or Tax Cut on your website. I have searched your site for them and cannot find them. Could you assist me with this venture? I would appreciate it very much.
979742	Your list of Free Online Tax Preperation Services include: H&R Block: Free federal online tax preparation and e-filing for all taxpayers. No restrictions. Everyone qualifies. More details However H&R Block is NOT free this year, it's 29.95, as we found out after an hour of entering tax information into their site.
974960	Yiur site is very informative, and reasonably easy to navigate. My comments regard the so called "free" preparation and e-filing by Turbo Tax. The infotmation supplied by Turbo tax says that everyone quailifies for free preparation and e-filing of Federal taxes but you had to inter the turbo tax site through the RS site, which I did. I knew I would have to pay for State preparation and filing. When it was time to pay the fees.It showed a \$19.95 charge to prepare and e-file my state return. And that preparing and e-filing my federal return was free.I payed this fee with a credit card.When I went to print the returns for my files the screen said that I was not eligable to file a free federal return because I made more that \$35,000. I had to pay an additional \$9.95 before I could print my returns! The info on your web site says that turbo tax would prepare and e-file federal returns for free, all taxpayers qualify. This is deceptive at least and illegal at worst. PLEASE ! change the info on your website so that others don't fall into the same trap. Thank you
966601	It was my understanding that this program is free to the taxpayers. However, once completed the above company required me to provide a credit card # and in turn charged me \$29.95. I followed all their instructions and understood there should not be any charges. I used the program last year with no problems. Let me know your comments. Thanks-- Ken-- www.SaniKen6pa.net
967865	When selecting a link for anyone of the companies that offer free filing their page is not available. Is there a date when these will be available by? Thank you Loni lushenioni_420@hotmail.com
972811	Turbo Tax "free" filing charges: Federal taxes 'free' State tax prep \$19.95 Direct Deposit Fee for return \$19.95 Taxslayer Federal taxes \$9.95 State Taxes free Direct Deposit free
970707	I do not want to go through another company to file why are you not set up to receive my efile driect. It would save you time to take my information electronicly. I will not pay someone when I can put a 57cent stamp.

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Reference #	Question
971288	Hi there, The last couple of years I've used Turbo tax Deluxe and then H&R Block Premium software to file my taxes. And generally happy with both. But I am very happy that I can now file on the IRS website for free but I do have a question. Because I'm a little skeptical of this free service I'm wondering how it may be different from the others I used. Is it better (how)? Is it about the same? thanks for your help.
970942	Just a quick note to let you know that there is a problem with free file when it comes to state returns. I live in Alabama, have an AGI of under \$17,000. and even though I accessed Turbo Tax thru the free file link at irs.gov I was charged \$19.95 for my state return. I have emailed Intuit (makers of Turbo Tax) to notify them of this problem. This is the second year that we have used free file for our taxes. Last year there was no charge for our state return. It is my hope that this is some kind of programming problem and I will be reimbursed for the fee that I was charged. However, I wanted to bring the problem to someones attention.
970959	For two years I have tried all the free e-mail sites on your website with no success. They never accept my password;the systems closes down when least suspecting it; there are charges that were not explained. I cannot tell you which specific websites; I can tell you that each one I checked that was supposed to be "free" I never got to first base. This happened last year and again this year. Tell me - what's going on? How can I file my return quickly? My spouse and I are both over 70; have only social security income; no deductions; no dependents; nothing special on our return. All we want is a quick, simple, return to get it submitted and a quick refund. Is that so difficult? Please let me know. Wanda J. James
979040	You talk about FREE efile , I don't find any FREE filing, it all costs. Every site I visited charges a fee. Why do you advertise FREE efile ?
978643	I would request that you look into H&R Block's claim that offers "Free federal on-line tax preparation and e-filing for all taxpayers. No restrictions. Everyone qualifies." I followed your link to their site and clicked on the "returning clients log-in" button and filled in my tax info. When I got to the end they required \$29.95 to file my tax return. Upon contacting their customer service they say that I'm required to sign up as a "new-user". "Company policy". That sounds like a restriction to me. It's not listed anywhere on their site . . . no fine print, no stipulations, and no exceptions. The problem with signing up for a new account is that you have to keep up with two different accounts and passwords but more importantly I'd have to spend the time to enter all the tax info again. I feel like they have advertised falsely on IRS.gov to get back some of the business they lost to other free-file companies (e.g. Quicken's Tax-Cut) that had all the positive publicity. I feel like they've entrapped me. Thank you.
976428	Several of the "free" efilers that your site links to have hidden charges when one attempts to efile. I tried two of these services through the links on your site, TurboTax and H & R Block, but they both required hidden payments when I attempted to submit my taxes. Please do not link to these services in the future. They are taking advantage of taxpayers who use the irs site trusting that the government has verified the legitimacy of these "free" services. Once someone has spend at least 30 minutes of their time filling out the online questionnaires on these sites that purport to offer free tax efilng, it is not fair to require them to pay for the services that are advertised on the irs.gov site as "free". Please do not allow these companies, TurboTax and H&R Block to offer "free" e-filing through the irs website in the future. Tax filers should be able to e-file directly through the irs website or at least not be referred to links through the irs site that have not been verified. Thank you, Jalila
976552	I went through your free taxpayer website and selected TurboTax as my choice. When I was about to complete the return, they wanted a fee for my federal return. I IM to their representative and he only said to go through your site and that is what I did. I did not get any help in resoving this. Is it free or not?
971642	I am trying to access a service, Turbotax ,but each time I do I get a note that I am leaving

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Reference #	Question
	the IRS site. How can I get there on the IRS site and get free filing?
971987	Tax I read where it is a little known fact that an individual could use Turbo Tax free at IRS.GOV, click on Tax programs. I can't find it on this site as advertised. Mary
975598	I was using an approved free e-file tax service on the irs.gov website and came back tonight and cannot find the e-file service. The e-file service was FreeTaxUSA. It was on your website last night. I was able to access it last night but cannot find it tonight. I'm worried that my tax information is in the wrong hands now. Can someone please let me know where I can find this e-file service on your website? Thank you Marcus
975635	My question is this, I want ot use the free file internet system. If I go to a company and fill out my taxes and have doubts that it would be better to use a private tax consultant do I have to file or send the forms I've filed on line or may I discontinue the process?
977196	i did the turbo tax federal file in which it staes free federal tax preparation for everyone... no restrictions. At the end i was charged 19.95 for preparation and 19.95 for filing. what a scam???? i hate beijing ripped off by an irs sanctioned site. Id like someone to contact me and do something about this
979687	I am concerned that I will be charged a fee of some kind because the irs.gov site connects me to a link for free filing through H&R Block, but every site says that it will charge me if I file through them. How do I avoid this charge?
976806	When I click on the start now button it tells me that the page doesn't exist. What is my problem? Carol , Scrap115@aol.com
975269	I'm trying to use the e-file or free file but I keep getting directed to a list of companies who expect to get paid. I just want to file my taxes on line.
983080	I HAVE FILED OUT THE NECESSARY INFORMATION TO FILE MY TAX RETURN FREE AND WHEN I HIT "SUBMIT" I AM RETURNED TO THE SAME FORM TO FILL OUT AGAIN. I HAVE DONE THIS TWICE AND HAD THE SAME RESULT. IS THE SITE NOT WORKING PROPERLY?
982823	As for myself I think you are telling a big fat LIE. I have not found any free filing on the web that you advertise. All you do is help the tax charging crooks to jep the public. I FOUND NO FREE TAX FILING AREAS IN YOUT ADVERTISING FOR THE INCOMF TAX PREP COMPANIES. All I found was them trying to sale tax programs at a profit, which makes you a partner in the tax prep operation to sale programs to the public. What a LIE.
982195	This comment is in regards to the free e-file system: The progam I used was Turbo Tax and It wasn't so free. The cost was \$40.00 it still is cheaper than over the counter price's,,But when I was assuming that it was a "free" public service in "affiliation" with the IRS I thought this is a GREAT idea!! BUT when I sat and did my Federal taxes and State taxes and at the VERY END the prgrams say's you must now pay a fee before filing or printing,,,This is wrong! Now I could have erased it and moved on and thrown hours worth of work away and just did it the old fashion way ,,but "they" got me the way they designed the offer to be,, "let the consumer do all the work and then we'll hit them with the fee's" I just feel the fee's and any other "PROCESSING" charge should be known upfront as with any other purchasing deal!!And in the END I learned again nothing in life is FREE,,,,I knew it was to good to be true,,,,Thank you for your time.
980193	I used the link to efile with H&R Block. I also did this last year. This year, I did not upgrade to pay for more consultation rights. This year, H&R Block is claiming the social security numbers in my W2 information does not match those in the personal information and therefore I cannot efile. Those numbers do match. I checked them five times and retyped them once. I think they do not want to provide the free efilng. They have not responded to my email informing them of the problem and asking them to fix it. Perhaps IRS should consider removing them from the list of companies we can use.
980265	TurboTax will not allow me to E-File free unless i pay for State which i do not want to E-File State.So its 19.95 for free Fedearal and no State return.This is a scam.
985264	how to you find the people you files with last year? End

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985291	Sirs, There is a service listed under your FREE tax filing that is not FREE at all. They let you fill out the complete tax return, and at the end, before they file for you, you have to PAY \$29.95. Maybe you should ask these people why they are listed under FREE tax filing.
985173	I spoke with a representative from TurboTax about the charge for for filing. There are 3 restrictions one must qualify for in order to file for free.
983548	How do I file on line,new at this
983545	I went to H&R Blocks website via irs.gov and created a username and password, but it would not accept them when I tried to sign in. I tried several times to no avail. Just thought you might want to know. I never did get to file.
983295	To Whom It May Concern; My name is Jeff Miles. I had used the free e-file option and was guided to Free Tax File with-in your system. I learned that when you first file a return it was free. The company did not inform me that you only get two chances to file. My first return was rejected due to invalid P.I.N. selection. I then corrected the problem that the tax service gave me no instruction that only numbers could be used. I corrected the mistakes and resubmitted my return. The second time it was rejected because I did not put in my adjusted gross income from the previous year. The web-site listed the area as not required. Then I could not resubmit my return until I paid them 3.95. I feel this is fraud by not informing the consumer of the number of times you can submit before charging, second it is deception to label a field as not required then charge someone for not filling it in.
986582	i HAVE REPEATLY FILLED OUT THE FIND A SERVICE AND ALL I GET IS THE BLANK FORM TO FILL OUT AGAIN WHEN I HIT SUBMITT. WHY?
984905	Just to let you know that I tried H and R Block's free file through the irs.gov's free file link and I ended up having to pay them \$19.95. Their website is set up in such a way that "encourages" you or "points" you into the direction of having to pay. When I tried to go back using the "back" links on their website so that I wouldn't have to pay, it would not allow me to file for free. After spending over an hour doing my taxes on-line, I finally succumbed and paid them the \$19.95 rather than start all over again. Sean
982915	I tried your freefile. I wrote down the username and password. Now Your service won't let me in to correct the return. Your free file is worth less than I paid for it. How frustrating and demeaning! I hope you don't receive such substandard service. I will probably paer file and tell everyone I know to paper file and I hope this paper filing cost you as much as you cost me in your insulting service. Thanks for nothing! I emailed for the password and the service still will not open. What a scam. You should be charged with false advertising. You are a distastful
983853	I tried for approximately 4 hours to use the "free" e-file service. After trying 3 different sources, I finally ended up working with TaxACT.com. I was locked up many times and had to exit and logon again. After I completed many questions and had already received the amount of my return, I was locked up again. The service asked if you wanted to start where you left off. I said yes each time. When I finally hit the submit button, I was told that if the filing was interrupted for any reason, I had to start over. No, thank you!!! Needless to say, this "free" service sucks in my opinion. I will not attempt to use it again nor will I suggest this method to any friends or family. I am thoroughly disgusted with it and thought you should know how it doesn't work.
987044	Finding my info I began filling out my e-file tax returns this evening but left the sight and now want to return. I cannot find the original sight where I saved the info. Thanks for your assistance. C Christine
987327	i JUST SPENT OVER 3 HOURS ON TAX ENGINE .COM THRU YOUR FREE FILE LINK WHEN I GOT TO THE FINISH THEY WANT \$29.99. iVE WASTED THE WHOLE AFTERNOON . i WANT AN ANSWER.
987032	How do I connect to the free site with out leaving the irs site so I don't get charged?
980483	Is this going to be at ANY cost to me??? Will there be ANY monies deducted out of my

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Reference #	Question
	return for using this service??
979922	I tried to file my state tax and they wanted to charge me \$19.95. I am suppose to get both federal and state free. why did they charge me?
979981	I used your web page and went to the esmarttax.com web page where you tell is free but they charged me \$15.00
975072	COMPLAINT: Deceptive "free" service by TurboTax. This outfit REFUSED to send my "free" IRS e-filing without \$19.95 payment, despite TWO HOURS OF MY TIME on their website! Please investigate (or remove) this company from the IRS website list of authorized referrals.
966311	THIS IS THE ONLY EMAIL ADDRESS I COULD FIND TO CONTACT THE IRS. I HAVE A PROBLEM AND WISH THERE WERE AN AREA ON THIS WEBSITE TO DEAL WITH IT. I DID MY TAXES ONLINE WITH COMPLETETAX.COM. I WAS SUPPOSE TO HAVE MY MONEY IN MY ACCOUNT 1/28 BUT I DIDN'T GET IT. WHEN I CONTACTED THEM THEY SAID THERE WAS A MIS-COMMUNICATION WITH THEIR BANK. THAT WAS ALL, AFTER SEVERAL OTHER EMAILS THEY FINALLY RESPONDED AND SAID, SORRY WE HAVE NO ADDITIONAL INFORMATION FOR YOU AT THIS TIME. I CAN'T FIND A PHONE NUMBER FOR THEM, THEY WON'T CALL ME OR GIVE ME ANY ANSWERS. I THINK THAT THIS IS A FRAUDULAS WEBSITE AND IT NEEDS TO BE INVESTIGATED. THANK YOU
969700	Thank you, but if you'll reread my letter, you'll note I was not asking for assistance. I was making a complaint about false advertising. Obviously your reply means you intend to let it remain as such. Thanks anyway. Erin Perrigo
968431	Can I transmit my 2004 Turbo Tax file to the IRS free? How?
968657	Just wanted to file a complaint re: TurboTax. After locating a free service, following your (then their appropriate links), filling out all of the questions and "paperwork", I was finally ready to file. It asked me for \$40. I thought it was a mistake and that I had been misdirected somehow. I logged in again, making sure to follow the "Free File" links. Still directed to a page that asked for either \$40 of my refund in order to file, or \$40 off a credit card. I e-mailed TurboTax thinking it was a mistake. Made sure to point out that I had followed their free links, did not ask for any premium upgrades, did not even want to e-file my state return. Just a straight federal return. Supposed to be free. I was told that only the preparation was free. If I actually wanted to "file" (or print) my return, it would cost me \$40. I am extremely irritated in that your site specifically states that they both prepare "and" file, free of charge. I went through all of that hassle when there are not only sites that truly don't charge any fees, there are a number of them that charge considerably less than \$40. I find the IRS.gov website an absolutely invaluable tool that I use frequently throughout the year, but I wanted to make sure someone looked into this issue. Thank-you for your time. Erin
973078	Why an I finding it IMPOSSIBLE to return to a free tax file web site after registering and providing information but not completing the file at the first visit?
973665	I would like to report a problem with one of the free tax companies linked from your site. No 1 Discount Tax Return Service LLC charged me 1.95 for a tax question which was never answered. I entered debit card to pay for this, but it said the card was rejected. However, today I see the charge at my bank. I cancelled the return because I could not get a question answered....no way to contact them by email or phone...now i can't even get it off my checking account...very bad practice from this company.....
973593	My daughter entered the H&R Block Web site through your site. After she had completed all of the forms, H&R Block informed her that she owed them \$29.95. It looks to me like H&R Block is running a "bait and switch" scam. Here is H&R Block's response to my daughter's inquiry: Our Response: Thank you for contacting H&R Block's Online Technical Support. Our Free Online Tax Program makes taxes easy. Get started today and feel confident you're getting the maximum refund guaranteed. Filers with \$34,000 AGI or less. Please use the link below to take advantage of this offer.

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	<p>www.hrblock.com/goto/ffa Note: You automatically qualify for free filing if your adjusted gross income (AGI) is \$34,000 or less and you have created your return from the above link. Includes one federal return. Additional fee applies for state returns for all programs. Note: When choosing to use the free site after you have entered your information you must create a new account and re-enter the information. If you have already paid we do apologize but we will not be able to issue a refund. Thank you for choosing H&R Block.</p> <p>===== Since H&R Block reneges on their offer of free filing, please indicate such on your web site. I personally think it is a shame that you make taxpayers jump through hoops rather than offering free tax filing software yourselves. It only makes sense that you would want to receive filings electronically, yet you allow companies to charge for the "privilege" of filing electronically. If I can't find free electronic filing, I create paper copies so that one of your people (not machines) has to handle my return. You guys already make me waste my time, I'm going to try to avoid having you waste my money too.</p>
966691	<p>I just spent my Saturday and part of Sunday on the TurboTax site preparing my tax return. The background of each page reminds one that it is free file. The blurb on the irs.gov site says "Free to prepare and file. No qualifying." As I prepared to submit my tax return, I was informed that I did not qualify for free and there was a low-cost fee. I had originally accessed it through this web site as I have done in the past 2 years when I used fileyourtaxes.com. I just thought you should know that TurboTax was not following through with what they promoted.</p>
974282	<p>Last year when you went to the irs web site, there was link to where you could get a list of tax places that would do your taxes free if you qualified. I was hoping I could get the same information this year. If there is somewhere else I could get this information would you please let me know. Thank You decanegg2@yahoo.com</p>
974079	<p>I need information regarding filing taxes on computer. The sites say free but then it appears that there is a charge. Is there a site where this service is truly free? Also what about signatures and the w-2's. Do we send them later or what? Thanks for the info. Tried to call but was put on hold and got tired of waiting for someone to speak with. I thought the IRS had gotten a little better with support, but now I am not sure.</p>
971111	<p>I am an IRA in Houston and trying to help a low income neighbor using the www.irs.gov free file sites...Turbo Tax on the irs site claims to prepare and efile for free, however, after completing the entire interview, it said it only charges when you print or file...Someone needs to correct either the irs site or the Turbo Tax site... JP Smith</p>
973388	<p>I have gone through irs.gov to get to turbo tax but now that I'm at the end it's asking for a promo code or I'll have to pay ... I don't understand is this really not free</p>
970911	<p>I have filled out the first page of the form asking to be directed to a free filing. I click on "submit" and it takes me right back to the form, with all my answers erased. How can I get beyond the first page? I really need to file quickly</p>
976229	<p>I've just read an article in the Wall Street Journal about Free Tax Software, but I can't seem to find any links on your website as the article indicated. Can you help me with this?</p>
976357	<p>last year I used freetaxusa.com I dont see them on your list this year. Is there a reason? did you have a problem with them? I would like to use them again,can I??? thank you.</p>
979273	<p>Your free efile through Turbo Tax isn't free! You shouldn't say that it's free to file when it's NOT! They automatically do your state return and you have to pay \$19.95 to file the state return even if you only want to efile your federal return. You can't move on to file your federal return without paying first. So, I'm mailing mine in once again. If you truly want efile to work and you say it's free, then your partners should be true to your word. It also doesn't state that you don't need to purchase Turbo Tax before using your service. I had already bought the product, thinking the data was imported into your system, but it's not. You may want to clarify that on your sight. Thanks.</p>
976364	<p>I have e-filed before and wish to do it myself! I have scanned this website for sever</p>

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Reference #	Question
	minutes and NOWHERE do I see the ability offered to me to actually e-file! I thought that as american citizens and a tax payer I could do it without having to pay for this service! It is after all my option to e-file, snail mail or pony express my tax information to you. Now it seems to me that as an american that information should not be so darn hard to locate! Further more since I hate to owe any money I have over paid my taxes deliberately so I guess I will have to re arrange myself and make sure I keep my money and next year I will be filing paperwork without receiving or owing any taxes. Now can somebody e-mail me the web-site used to file electronically! PLEASE PIEDAD
976305	I was on your web site looking for info about free efilng services - each listing displayed had a link to a page for "More details" but each time I clicked on the link all I got was a blank page displayed - every time. Any suggestions?
971682	I'm contacting you because I followed your link to FREE tax prep and e-filing via TurboTax. I am disappointed to find that now that I have followed this link (and bookmarked the page as issued by TurboTax) and gone through the effort of working with their program, I am to be charged \$20.00 for my e-filing. How is that?!?! Your website says that it's FREE. I have emailed TurboTax, and as of yet have gotten no response. I would like to know why the 'bait-and-switch techniques'.
972483	i have a question about one of the links that i went to to submit my taxes. They never said up front it would cost anything to call them and i dont have a credit card and they have all of my information but i have sent them over ten emails regarding help because once i filled in my bank information it wont let me send my return in now. i spent five hours online lastnight thinking i would wake up this morning with word from them to help em and they still havent responded i am confused about what to do now?
972753	I filed last year with TaxAct online, I cannot find it on your site this year. where do I go to do free file? D.
969129	Dear Sir: Can you let me know why I am unable to open through IRS web site a free e-filing company like TurboTax for the web. None of the companies shown in your list can be accessed. Will that be fixed in the near future or free filing is not going to be available? Please let me know. Thanks. ----- Krish
969170	I have yet to find one of the Tax filing services on your web site that does free filing, they all claim to offer free filing until you get ready to file, and then they slap a fee on you, no matter what your income is, my income is 13,000 which you would think would qualify me for any of them, but no way, there's always a fee, I'm amazed that you would allow these companies to rip off the public. Howard
978507	to whom it may concern: E filing is not free like you would have everyone believe my tax prep software charges 19.95 to e file and direct deposit my refund so i am using the old 37 cent stamp and waiting for my refund Richard
979668	The TAXACT software listed to do taxes on line have a flaw. For 3 dependents their program stated the exemption deductions were \$\$6,200. When in reality they suppose to be \$9,300 This error in calculation was a difference fo \$1,304 less than the actual refund of \$3,962. Something needs to be done about this problem. Their software needs to be removed form the internet, so the millions of American's will not have to file 1040X just to get what their refund should have been. Betty
978123	I would like to make use of the freefile service, but I have already used a store-bought computer software program (specifically, H&R Block TaxCut) to prepare my return. Could you please tell me if any of the freefile programs allow one to import their already prepared return from computer software?
977390	This web site tells you that if you file your taxes e-file that it will be free of charge when you get to the end of completing your return then the system lets you know that there is a \$25.95 charge. Why was I charged a fee?
975197	To Whom it may concern: I recently read an article in the local paper which said the IRS and some software companies have come to some agreement for tax payers to get free tax software. Is this true, and what are details?

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Reference #	Question
975219	why is free file not free? H & R Block wanted 29.95 and Turbo tax started off informing me about a fee
976764	I only wish to file my federal return through your FREE program, yet the software still wants to charge me for state. Yes, for e filing I selected Federal only and they still want 19.95, if this cannot be corrected, please send me my regular tax booklet. P.S. I choose Turbo tax, and it stated that even if I filed state, it would be 9.95...not the case when you complete your taxes. Please assist.
983049	Hello, Your web site states that under certain conditions online filing thru irs site is free. The vendor I went (Turbo Tax for Web) to thru IRS site had a page at end that states there will be a charge. This needs to be corrected, if they are going to charge to file it should be so stated up front on IRS site , not hidden in agenda back end. Also, I feel strongly the IRS themselves should operate online computer filing & bypass all these vendor hawks
980395	You are giving misleading information about the FREE filing for a simple return for TaxACT!!! I have no credit cards that are valid, that is why H & R Block is not doing my income tax forms. I need the money, as I am unemployed and need to pay my bills, so the credit card is out of the question!
982076	I have just tried to use two of the free e-filing program mentioned at your website. THEY ARE NOT FREE. TurboTax insists on charging me for filing only the federal return, even to print it! Even though they give you the option of filing either both state and federal returns for a cost of 19.95 (a fee for only the state return) When you choose the option of filing only the federal return, you are still taken to a screen for credit card info to pay a 19.95 fee. I don't appreciate that I have given my personal information and tax info to this company, only to find that there is a hidden fee.
980989	I keep filling out the brief questionnaire on your web site that is supposed to "guide me to a free efile service" however it does nothing. When I click on submit - it merely clears the page and nothing happens. Can you help? Deb Hahnenberg-Stephenson, MSW Community Resource Manager Antrim/Kalkaska Counties 231-258-1233; 231-533-7304 fax: 231-258-4482 The information in this e-mail is confidential and may be legally privileged. It is intended solely for the addressee(s). Access to this e-mail by anyone else is unauthorized. If you are not the intended recipient, any disclosure, copying, or distribution is prohibited and may be unlawful.
981072	h&r block thru this site charged me \$29.95. they said first it was because i didn't use this site when i told them i did. they asked if i imported info from previous filing with h&r. i of course,had done just that...as i did last year from this site with no chg. oh that's why i was charged there's strict policy blahblah blah. that choice of import DIDN'T list a chg for import. and i want a finder's fee is you fine them.
981009	I tried using a website from your Alliance list yesterday. I picked TaxEngine.com because their info said "free tax preparation and free e-filing. No restrictions." After feeding my tax info in, I completed my return. When I tried to print it, I was informed I had to pay a \$29.95 tax preparation fee first, and I was asked to provide my credit card info. I left the site. The least a taxpayer can expect from your alliance list is to select honest companies. I just wasted about 45 minutes of my time. Tom
981220	Your mailer concerning free e-filing is a little deceptive. E-filing is not free for folks using Turbo Tax software. If I were to e-file my return I would first have to allow a \$14.95 charge to my credit card and wait for a refund. I choose instead to mail my return. Harry
985304	I used tax-eng.com to file and send my return, when I got ready to e-file, they said I owed 29.95 to them for filing. I e-mailed them about the charge and they said I didn't go thru the IRS site and I did. That's how I found them. I just wanted to let you know about this in case they are charging other people for a free service.
984498	Was looking for a 'free' site to file federal taxes. TurboTax, as listed on the IRS.gov website lists "Free federal online tax preparation and e-filing for all taxpayers. **No restrictions.** **Everyone qualifies**" yet AFTER entering my information, they

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Reference #	Question
	demanded a \$9.95 fee for ONLY the federal tax form (must be paid before I could efile or print off forms) saying "you do not qualify for fee efile". I entered the website following links from IRS.gov website. Please do not let TurboTax SCAM honest tax payers like this!!
984790	Free e-File at H&R Block website is NOT unrestricted. H&R Block fine print says that Free e-File is restricted to returns with Adjusted Gross Income under \$100,000. I sent H&R Block an email asking clarification, and they confirmed that e-file was free if AGI meets certain criteria. (See their email response below.) I tried, but it looks like I am going to be filing a paper return again this year. ...Sincerely, ...Bill Buser Copy of H&R Block email response follows: ----- From: clarify@fin.hrblock.com 7:56PM 1/30/2005 To: billb@hal-pc.org Subject: H&R Block Service Center Case #E012805-185212 concerning your question submitted on 01/28/05 In your message submitted 01/28/05 you wrote: IRS site and H&R say E-file is free with no restrictions. Several pages into interview, it says free for returns with Adjusted Gross Income under \$100,000. So what is it? Free or not? ----- Response: Thank you for contacting H&R Block's Online Technical Support. To do that: 1. Navigate your browser to www.irs.gov 2. Create a new account with new user ID and password from the H&R Block link. Note: If you used this FREE filing Program in previous years, to use it again, you must create a new account and not import from last years return. 3. Complete your taxes. 4. You will receive your federal return for free if you meet the adjusted gross income criteria. Thank you for choosing H&R Block.
984715	Why did I pay \$29.95 for my "free service" when all > the paying offers were 50% off with the highest > \$19.95 > Najah > > --- onlinetaxes@hrblock.com wrote: > > > Payment receipt > > Dear NAJAH AL HAQIQAH, > > > Thank you for using H&R Block's Online Tax > Services > > and for your payment. Below is your payment > > receipt. You must now - if you haven't > > already done so - file your tax return(s) with the > > IRS/DOR for your return to be complete. > > > So, now: > > > >ref="https://taxes.hrblock.com/hrblock/login/Login.aspx?ShowReg=0&TaxType=OTP&PY=yes&PartnerID=0">Click > > here to sign back into your online tax > account, > > go to the "Filing Status" on the Main Menu > > and complete the filing process." > > > Your username is: hakikah > > Please handwrite your password here: > > > > > > Date :1/26/2005 > > Bill To :Najah Haqiqah > > :753 Westgate Avenue > > :University City, MO 63130 > > > > > Credit Card # :5*5532 > > Order ID :BDD2G7CDF8864H93 > > Transaction number :1067959301560169477642 > > > > Product Qty Price > > > Total > > ----- > > > > > Online Tax Program - Federal Return 1 > \$29.95 > > \$29.95 > > > > ----- > > Total: > > \$29.95 > > > Thank you for using H&R Block's Online Tax > Services. > > We appreciate your business. > > > PLEASE NOTE: If your e-mail program doesn't > > allow you to click on the link above to be taken > > to > > the Main Menu, please copy and paste > > > https://taxes.hrblock.com/hrblock/login/Login.aspx?ShowReg=0&TaxType=OTP&PY=yes&PartnerID=0 > > into the address field of your internet browser. > > > *****PLEASE DO NOT RESPOND TO THIS EMAIL OR CALL > > TECHNICAL SUPPORT SPECIALISTS. FOR E-FILE > INQUIRIES, > > SIGN BACK INTO YOUR H&R BLOCK ONLINE TAX ACCOUNT > > AFTER YOU RECEIVE YOUR E-FILE STATUS UPDATE > > E-MAIL ***** > > >
985854	Hi, I was wondering which one of these sites are more secure,safe and accurate? Can you give me your opinion of which one you would recommend? Thank you, Kim Isett
986886	Hi, I thought that IRS.gov was supposed to have free tax preparation software on the web site, but I can't find it. Am I just not able to find it or did I misunderstand. Is there free tax preparation software available on IRS.gov?? If not, where do I find the free tax preparation software that I keep reading about?
987274	I filed my taxes through Turbo Tax but was rejected because I didn't have last years AGI

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Reference #	Question
973740	I'm not sure if I'm at the right help desk. If I'm not, I would appreciate your help locating the correct one. I went to your site to prepare my taxes, 1040A. I chose Tax Engine and because of my income level, it stated that I would not have to pay a fee. I prepared my taxes but when I went to e-file, they said that my refund has to go through a third party bank and they are charging me \$18 to do so. I would like to just go straight to e-file but I'm not sure how to go about it from there. I have prepared and filed my taxes online for a few years now but this is my first time with Tax Engine. I'm just a little nervous about the third party bank and the fee. Any help would be appreciated!
967727	Dear Sir or Madam: I decided to try and file electronically for the first time, as it appears to save our government money. I attempted to do a "free" e-file using two of the selected services (H&R Block and Turbo Tax). Your website stated these services were free for filing, which was a great incentive to use the service. I thought I'd give it a try. I encountered the following problems: - The H&R Block program did not allow me to enter my military 1099-R retirement amount. I tried everything, to no avail. I had to abort this program. - I then attempted to use the Turbo Tax service. This program worked fine. At the end of the program, when I was ready to file, I was informed that I would be bill \$19.99 "deposit fee". I may be misquoting this a bit, as I don't recall exactly how they described this fee. They also wanted to charge me \$19.99 for my state taxes. I had no objection to this, because I was forewarned of this expense. The additional \$19.99 "processing or deposit" fee certainly wasn't mentioned. I thought it would be more cost effective to issue a payment directly into my account, rather than issue a check. I didn't want to pay \$40.00 to do this. In closing, I wanted you to be aware of these issues. I will await your answer. I spent a some time doing both programs. I could have easily done this my hand and mailed the returns, only costing me the price of two stamps, rather than being charged almost \$40.00 for one service (Turbo Tax). The H&R Block program simply didn't work. Sincerely, Kevin
974012	I just want someone to be aware of a website www.expresstaxrefund.com . I used their site to file my refund electronically and I feel this site is of questionable character. The site does not allow you the opportunity to print/view an actual copy of your tax forms when they are completed until a few DAYS later. Furthermore, their listings of prices/fees is obscure on their site and written in a confusing manner. Finally, the website does not allow you to print a receipt of payment until a few DAYS later and their fees are outrageous. I feel they are "shady" and I certainly feel that I have been duped. Please find a way to regulate sites like these or warn other taxpayers to be aware. Thank you.
974305	Hi I just wanted to comment on a company that is listed on your free efile site it;s complete tax.xom I tried to do 3 of my nieces and nephews taxes and use my e-mail because they do not have internet access and all three of them have agi of \$6000. or less and each time they have tried to charge them each like \$33. I even accessed their site through your site. I don't know what they are trying to do but this is not right. Your web site is very informative and is great they are the ones not doing right Thank you
968995	I filled out the free e-mail filing forms yesterday, but today, I wanted to bring it up to revise it and I can't find it, or do I know how to get into the program. Can you help me?
968238	e-file, free file alliance companies, guide me to a service. It asks for a state, VT is not listed as a choice.
975995	I was excited about your free e-file. However when I learned I had to go through a third party it lost it'a appeal. I don't want to share my personal data with an organization that's in business to generate a profit. There's one in there somewhere for them. When you offer a service like my state, directly into the department of revenue, I'll gladly use it.
978934	I e-filed my return on 1/18 & was told by the free service that I used that you would be e-mailing me a copy of my return so I could print it for my records. So far, I have not received the copy. Could you please send it to me? Sincerely, Brian
976397	I went through your site in order to get free efile. The company TaxActonline charged me 9.95. Was this a come on. Someone owes me \$9.95, free is free. Please look into

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Reference #	Question
969202	the farce. Howdy --- We have previously paid for and used turbo tax the last several years and our tax bill was zero; however, we had to print the return and snail-mail it in because of income from two limited partnerships - i.e., the returns couldn't be e-filed... Is the IRS accepting these e-filed forms this year and if so is it available via the free file alliance???? Looking forward to ur reply ----- Bill
975468	I filed my taxes on a site titled FreeTaxUSA which offered free filing for residents of Pennsylvania. I was notified that my return had been sent to the IRS and that I should check back within 24-48 hours to see if my return had been accepted. Now when I sign back on to free fie and browsed the providers whom offer service, I am unable to locate this provider. Please help. I do not know if my return has been accepted or what my status is. Where is this site?

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Reference #	Question
992444	I've been trying to do free file but when I press the Start Now button only the IRS logo shows up and the rest is gray and says its done. Is it off-line?
992542	I am writing to express my dissatisfaction with "Free Tax Return" (http://free.number1tax.com/), a Free Alliance Company, and to seek the IRS's assistance in retrieving the \$2.99 that was fraudulently obtained from me. Browsing the e-File options offered by IRS.gov, I came across "Free Tax Return." This company advertised "e-filing" for tax returns. Filing of a federal income tax return through this company is "free," but a state tax return costs \$2.99 per form. Impressed with the opportunity to e-file both federal and state tax returns for less than \$3, and trusting the IRS's judgment in selecting Free Alliance Companies, I selected "Free Tax Return." After e-filing of my federal income tax (which went smoothly), I prepared to file my state return. "Free Tax Return" requires that a taxpayer pay per form, so after selecting my state income tax form, I entered my payment information and presumably I have already been charged. To my dismay, the "e-filing" offered by "Free Tax Return" for state returns is a partially-completed PDF (apparently drawing on some information from my federal return). I must download this half-complete form and mail it myself. Deceived by paying for an "e-filing" that isn't an e-filing, I looked for customer support. To my chagrin, "Free Tax Return" does not offer telephone customer service. It offers only e-mail customer service--I have to pay \$1.95 for non-tax-related questions. I refuse to pay money to demand my money back. For this reason, I would like to communicate with the IRS official who can assist me in retrieving "Free Tax Return's" ill-gotten money. I plan to seek other action as well--the Better Business Bureau, my Congressional representatives, etc. I trusted the IRS in its selection of Free Alliance Companies to choose those vendors who would not to rip-off taxpayers. Until now, I have never been the victim of Internet fraud--I am appalled that it comes through IRS auspices. Please feel free to contact me by return email or at (703) 220-5545. I request that you contact me promptly so that we can resolve this matter. I appreciate your kind attention to this matter. Thank you for your help.
995783	Turbo tax is not free Thanks for wasting my time. As stated on your web site, "turbo tax: free federal online tax preparation and e-filing for all taxpayers no restrictions. everyone qualifies. I used the irs web page link and they wanted money before they would e-file. taxpayer run web sites should not lie in order to make private companies money. Please do not insult me with some bs about the fee-based offer info located in the more info section of your web site. I read that before I used your link. let me know when you change the wording on your web site. I will be checking. this is not the last you will hear from me.
995511	Can I e-file from abroad, I am a US citizen living abroad, in SWITZERLAND ? Thank you to tell me too how I can do it if it is possible. Best regards
995823	The following E-File service https://center1.123easytaxfiling.com/04/check_disabled.shtml is Not filing return - aborting process claiming no tax due no refund due. There was no tax but there was FIT withheld of \$39.74 +\$64.36 = \$104. refund. I went back and checked what was saved on their W-2 screen.
994125	Yes I was wondering why I am required to pay the Prep fee and the Electronic filing fee on Turbo tax and it says that it is suppose to be free for logging in through IRS.GOV?
994321	I would like to use your service for free tax help on filing my federal and state taxes. I keep seeing messages to be careful to only connect to these tax companies through the IRS page but when I try to connect to one of the tax companies from the IRS page after I have done the surveys I get a message saying I am leaving the IRS page and the IRS does not indorse this company. How do I get to the tax company that I pick with out leaving the IRS page?
994518	This message (including attachments) may contain information that is privileged, confidential or protected from disclosure. If you are not the intended recipient, you are hereby notified that dissemination, disclosure, copying, distribution or use of this message or any information contained in it is strictly prohibited. If you have received this message in error, please immediately notify the sender by reply e-mail and delete this message from

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Reference #	Question
	your computer. Although we have taken steps to ensure that this e-mail and attachments are free from any virus, we advise that in keeping with good computing practice the recipient should ensure they are actually virus free
994539	Yes I need information regarding filing taxes on computer. The sites say free but then it appears that there is a charge. Is there a site where this service is truly free? Also what about signatures and the w-2's. Do we send them later or what? Thanks for the infor. Tried to call but was put on hold and got tired of waiting for someone to speak with. I thought the IRS had gotten a little better with support, but now I am not sure
999779	I read an article in the Wall Street Journal that said access was available to several different tax preparation titles from the irs website. I have been on the site and cannot find the link. Please help me find the link to the free tax preparation software.
1001866	Hello, I heard that TurboTax (or some other tax prep package) is available for free through the IRS. I could not find it on the website though. Can you let me know where I should look for it?
1001854	I am trying to use one of the free file alliance companies. Every time I click on one of the links it has a "please note" screen that tells me I am going to leave the IRS site. I understand that if I do not go through the IRS site that there could be a fee charged. Can you explain to me how to go to one of the companies sites through yours?
1000153	I am a little concerned. This weekend, i linked up to a site through the irs.gov site. I did not finish my tax forms because i needed one more piece of information dealing with education. Yesterday, when i received my T1098T, I went bact to the irs site, however the tax co. that i linked up to was no longer there. I do not remember the sites name, but i do know that there were two that listed all the states they provided free service for, now there is only one. my question is, have any sites been dropped from the irs site? and if so, what about All of my personal info. that i submitted to the dropped site? thanks for your help.
1000395	I e-filed my federal return last year using the H&R Block website as listed on your site. It was very quick and easy, so I returned to your site once again, noticed that you referenced H&R Block, clicked the link and selected the "FREE" return and was on my way. I completed my 2004 return and the site says you must pay the \$29.95 to continue. My income or status has not changed since last year, everything is the same, yet they are asking me to pay. I have emailed their tech support and they do not respond. Not sure you can give me much help, but thought you should know it doesn't seem to be free!
1002388	The TaxAct.com link on the list of free providers is not usable. The name (which is the clickable link)at the beginning of the description is cut off before the colon. The only way you know that it is TaxAct is by clicking the more info link, but there is no way to get to the free service directly from the web page. I've used this service for the past 2 years and it is not buggy like some others I have tried.
1003935	The IRS has partnered with some on-line tax preparation services that offer free E-filing of federal returns and E-filing of state returns for a small fee. I have used this service the past two years successfully. This year, TaxAct sent me a link directly to access their website and prepare my returns. I assumed the same offer would apply. But as I was nearing the end of entering all my information, I became aware they were charging me for filing both federal and state returns. When I checked the IRS website, the free federal e-filing was still advertised with TaxAct. The caveat does appear that if you go directly through the vendor's website, you may not get the free offer, but if have done business with one of them solely through the referral of the IRS, they should not send deceitful e-mails that route me to them such that I have to pay an unnecessary fee!! I am really ticked off and hope you could help me get my \$7.95 refunded or restructure the arrangement with these websites so that they are barred from soliciting past users of their service in this misleading way.
1002094	I am eligible to use this service; however, I can not find the link on your website to be able to start. Please advise. Thank you. Nathan
1002180	I was doing my taxes with H & R Block on the free site. When I wanted to print my taxes to

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Reference #	Question
	check everything I was told I needed to pay 29.95 before I could do this. I was under the impression this was a free site. Last year I used this site and had no problem. Please advise.
1002181	I have tried twice to use the free file by Turbo Tax. After all the computations are made they want a payment of \$29.95 to either efile or print the Federal return. This is contrary to what your site says.
1003837	Your free file program lists TurboTax as a participatingsitewhich says "FREE FEDERAL ONLINE TAX PREPERATION FOR ALL TAXPAYERS. NO RESTRICTIONS. EVERYONE QUALIFIES. I accessed the TurboTax site through IRS.gov, and its home page advertises FREE FILING. ON COMPLETING MY RETURN THE PROGRAM CHARGES \$29.95 for preparation. I can't find nor get an answer. Their claim to Free filing appears false and fraudulent.
1005428	I just wanted to let someone know about one of the web sites I went to for free tax prep found on your Free File page. I went to taxslayer.com and filled out my taxes and could not print them out. They said that I had to allow pop ups, which I did, still didn't work, then they said that I had to allow cookies which I did, still didn't work, then they said I had to disable all of my virus protections, which finally threw up a red flag for me. Why would I have to do this just to print out my tax return?? Just thought you ought to know. Dena
998343	To whom it may concern; Is it possible to use this service as married filing jointly with itemized deductions and purchases/sales of stocks through a brokerage account? Please advise. A.
992399	The H&R Block free filing system does not clearly trigger the filing of state tax refunds as income. The file has it listed under other miscellaneous income, far into the list, and is very easy to miss. Now I will have to file an amended return, at a cost, if I wish to use their website. Why can't we just fill in the standard forms online? The interview process can make us miss things that we would know to fill in on a form, like the state tax refund.
1005690	can I use free e file if I itemize?
1005594	Although advertised as 'free filing' on the initial website, at the conclusion of the paperwork there is a request for a \$29.00 payment for e-filing. I THOUGHT it was possible simply to fill out the 1040EZ form on line. Isn't it? This website is interesting and thorough, and useful---I mean, the EZ calculations were done without charge, so you could see the amount of your refund quickly. And as far as I got on the H/R Block website before I feared I would be charged a fee, I could tell I was being professionally queried to maximize my own savings---but WHERE IS the link that just opens the EZ form for the taxpayer and lets the taxpayer input the numbers himself or herself? And then file. Isn't that possible? Please help. Those are the two items---'free' doesn't really seem to be free, and can you email back the direct link and any relevant information about that. There was something about needing a PIN derived from one's 2003 Adjusted Gross Income. That was dense. Rita
1000656	Your link for TurboTax states that on-line preparation and E-filing are free, no restrictions. TurboTax attempted to charge me almost \$40.00 to prepare and E-file my return
1000684	I was using H&R Block's service and they tried to charge me. I have found a workaround for that problem, but in the mean time, I attempted to file with No. 1 tax (http://free.number1tax.com/). My return was rejected, because though I worked in Nevada, my employer is based in Vancouver, BC and there is no option to enter Canadian addresses on their service. Can I still use the H&R Block free file system to refile or am I stuck with No. 1 tax. Also, I can not log onto their system, and have requested my password via email twice and have not yet received a response. Thank you in advance for you help. Sarah
1000814	the turbo tax website you have on your website for free filing and prep is incorrect they charge a 19.95 fee for prep. please check into this or remove the site from yours thank c
1003521	My name is Jeff. I had used the free e-file option and was guided to Free Tax File with-in your system. I learned that when you first file a return it was free. The company did not

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Reference #	Question
	inform me that you only get two chances to file. My first return was rejected due to invalid P.I.N. selection. I then corrected the problem that the tax service gave me no instruction that only numbers could be used. I corrected the mistakes and resubmitted my return. The second time it was rejected because I did not put in my adjusted gross income from the previous year. The web-site listed the area as not required. Then I could not resubmit my return until I paid them 3.95. I feel this is fraud by not informing the consumer of the number of times you can submit before charging, second it is deception to label a field as not required then charge someone for not filling it in.
1004614	I was helping my daughter e-file her 2004 tax return using the 'free' services made available through your web site. We selected turbo-tax as the provider. After entering all of the required information we were very surprise to find we were told we'd need to pay a fee of \$19.95 to some sort of a bank (can't recall the exact name, but it was something represented by 4 letters -SBBT?). The fee was somehow associated with processing the refund. This doesn't seem to be in the spirit of free filing as your web site advertises. There was no option to refuse the fee. Did we miss something simple, or is there in fact a fee associated with free filing
1004671	I would like to know how you do your taxes online?
1004481	I spent several hours working on the TurboTax efile program via this website, then in the end they wanted to deduct \$39.90 from my refund in order to process my "free" federal return! That is NOT a free service!!!! What gives? I will be writing my Congressmen on this one!
1003153	I've prepared my income tax return with HRBBlock. I logged on through the free file section at IRS.gov and I'm being charged \$29.95 for the preparation! I am a returning client and last year I filed for free as well. I emailed them about 2 days ago, but no one has responded. HELP!
1001073	Do these companys that advertise FREE TAX SERVICE really need the \$20 from dependents just because they had a summer job-This is the chance for them to learn the tax process-they do not owe any taxes-they should not have to pay a service to file them-It has turned to just another charge to the citizens for the cost of stream lining the system
1001206	I used the link to efile with H&R Block. I also did this last year. This year, I did not upgrade to pay for more consultation rights. This year, H&R Block is claiming the social security numbers in my W2 information does not match those in the personal information and therefore I cannot efile. Those numbers do match. I checked them five times and retyped them once. I think they do not want to provide the free efilng. They have not responded to my email informing them of the problem and asking them to fix it. Perhaps IRS should consider removing them from the list of companies we can use.
1002738	I got my federal and state taxes electronically filed by my local IRS office back in 2003. I was wondering if they can still e-file my state and federal taxes for me.I do make under 36,000 a year to meet the requirements for the free tax filing.Thank You Heather Slaven
1002602	I am interested in using e-file. I do not have tax preparaton software. Per page 3 of 20041040ez instruction booklet, it reads that you can download the software on the internet. Do you have suggestions as to which one to use? Can I download it from your site?
1002686	went to the IRS website for e-filing firmsselected H&R Block and prepared tax return under the choice of "Free filings". Prepared tax return and when I got to the final step they would NOT allow me to proceed any further to the actual submission stage until I selected a PAYMENT METHOD of \$29.95. So much for the FREE FILING OFFER BY H&R BLOCK.Just for the record the Gross Income and the AGI was \$10,843. What a ripoff. It should be noted that I did not pay this sum.Just wanted to let you know.I consider this Deliberate miss leading people.It was a complete and utter waste of my time and effort
1006484	doesnt the irs have a free efilng page. So far I cannot get it on my computer?
1006551	How do I access the free e-file web-site with H&R Block without leaving the IRS website, so that it will not cost us anything?

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1007369	I used the irs web site yesterday to assist a friend in filing a free tax return electronically and was guided to a web site "efile tax returns" No disclosure was provided regarding the cost of filing a state tax return until the return was completed and the the 19.95 fee was revealed which is much higher than other web sites, The site would not allow me to print a paper copy of federal or state and proceeded to file the federal return electronically. This company should be eliminated from the irs web site. I also have received no email to give me the status of the return. What do I do.
1007397	Hello, It would be great if the IRS check on the "Free File Alliance Companies" listed on your site. I attempted to use "free filing" with H&R Block and Turbo Tax but they either have bugs or actually charge. H&R Block system has a bug which prevents users from finalizing and eFiling tax to IRS. Numerous attempts were made putting me through an infinite loop going nowhere. Turbo Tax forces users to file their State tax as well and charging over \$30. These appear to be deliberate bugs/errors that almost force users to pay or end up frustrated and on square one. I can be reached via my email with any questions. Thanks! JC
1007432	I have tried and tried to free e-file but I can't seem to get the software downloaded.I want to stay in the realm of the irs free base for security reasons.Thanks,Mary
1009642	Toooooo many affiliated "free" tax return sites. Finding the basic free filing IRS site is very frustrating
1007334	Dear Free File, I am very upset with the IRS Free File Program. I went through Free File and selected TurboTax as the supplier for free federal filing. TurboTax was listed as follows: <i>TurboTax®: Free federal online tax preparation and e-filing for all taxpayers. No restrictions. Everyone qualifies.</i> I was under the assumption that federal preparation and e-filing was free for everyone. I went through an hour of filling out all of my husband and my information only to find out at the end that there is a \$19.95 preparation fee. I do not know if this is a problem with IRS.gov website or Turbo Tax so I am contacting both. I do think that since TurboTax charges a \$19.95 preparation fee you should not put it on the website as free. I am upset and after entering all the taxes I just wanted to get my refund as soon as I could and go to bed, so I just accepted it. However, I would like a refund of my \$19.95
1009124	Hi, There is a problem when clicking on the "Leave the IRS" tab. An error occurs and I am unable to link to any of the free online tax preparation services.
1009521	Hello, I tried the free online filing through #1 discount Tax Return service in you alliance. They did not calculate the taxes right, so I cancelled my tax return and did not submit it. The company has no contact information and I am concerned about them having all my info. I don't want them to submit my form, as I am sure they did it wrong. They did not even give me the right credits. I am going to go to an IRS walk-in center for tax preparation since I am very low income. However, I wanted to express my concern about this company. Please let me know what you find out. Thanks. Natalie
1012017	Hi, I want to e-file. I don't want to pay a fee. I went to you site titled "On-Line Filing Software Companies" in hopes that I could find a free service there. I was informed on this page that this information would not be available to me until Jan. 2005. I need to do my taxes right away in order to get financial aid for school. Thanks.
1008310	I'm uncertain whereabouts in the IRS to throw this particular query. Some aspects of it are electronic, as in testing a company's forms online, and some aspects may perhaps be bigger. The free e-file companies fall under your "official umbrella" in the eyes of the public. I believe in one case at least that either the simplest of their state forms are incorrect, or they may be doing strange things to the state returns they also offer, and for which they often charge, particularly involving electronic banking and transfers of funds. I realize there's disclaimers all over the place, but when it involves wire transfers of money, I believe that does fall under federal concern. I went through one of the free e-file services to do my federal but not state filings. I used the company Tax Engine.com. To begin with, I asked them to do a CA state return along with my federal; no mention of charging me, to

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	<p>begin with. I was aware from experiences last year that companies often charge for state filings. It seemed straightforward enough until I did not give banking information and did NOT check electronic fund transfers to resolve what tax money I owed and what was owed me--items which their website appeared to demand from those who aren't as familiar with computers. When I did not give it and hit "continue", my computer crashed so badly that I had to reboot several times and re-login on the site. Some folks would have given up then. I got through the site and again refused to give banking information or allow fund transfers. This time it went through, to tell me that I owed over \$1000 on my CA state taxes, which didn't seem reasonable. Since they also surprised me by demanding \$10 to file it for me, I backed up and took out the request for filing my state return as well, and just did the free federal e-file through them. By now, I'm also uncertain about contacting TaxEngine.com directly to query whether their forms are messed up, and whether they've done my federal form correctly either. Having to spend time to redo the federal form on paper, again, just to check their numbers kind of defeats the point of e-filing simple forms in the first place, and I haven't sat down with it to check it as yet. On my state taxes, when I went directly to e-file on FTB's CalFile to do my state filing, I found the difference is a little startling. On FTB's Calfile, it turned out I'd overpaid by \$73 already, which sounded more reasonable! I'm not happy about the prospect of folks who don't understand computers going confused out of thousands of dollars because they don't realize that some form is working wrongly. Particularly with e-transfers of money from their bank, it generates broader mistrust in government, even though this was actually some glitch by a private company. Hope this gets some light shed on what may be a very simple problem... Thanks!</p>
1008368	<p>I didn't know about free e-filing until after I filed my return on H&R blocks website. Is there any way I can be reimbursed? This makes me sick. thank you,</p>
1008156	<p>just a fyi, I tried to access 2 web sites thru the irs web site, h&r block and turbo tax and both of them would not let me file without have the money deducted from my refund or giving them my charge card#, I am a single mom with a gross income of 20499 Isn't this service supposed to be free, based on income? every dollar makes a difference to me and I'm not about to pay someone for something I can do myself. I was unable to even print the tax form without paying them, What really makes me mad, is now I have to go the library and get all the forms ect..... and file my return by mail- will next year you least send me a tax form book? also please look at the company's you put on your web site, I spend an entire evening and didnt come close to filing my taxes, just a fyi</p>
1008123	<p>I was trying to setup to free file and after putting all of my information in and it allowed me the option to review and print my information, I did not get to print the information and that raised a high concern for me b/c It have a box to view and print but yet I cannot print out the tax return. I did not submit I saved it and exited the program to try a more user friendly program so what will happen to the information that I input into their system.</p>
1012944	<p>Dear Sir or Madam: I am writing to express my dissatisfaction with "Free Tax Return" (http://free.number1tax.com/), a Free Alliance Company, and to seek the IRS's assistance in retrieving the \$2.99 that was fraudulently obtained from me. Browsing the e-File options offered by IRS.gov, I came across "Free Tax Return." This company advertised "e-filing" for tax returns. Filing of a federal income tax return through this company is "free," but a state tax return costs \$2.99 per form. Impressed with the opportunity to e-file both federal and state tax returns for less than \$3, and trusting the IRS's judgment in selecting Free Alliance Companies, I selected "Free Tax Return." After e-filing of my federal income tax (which went smoothly), I prepared to file my state return. "Free Tax Return" requires that a taxpayer pay per form, so after selecting my state income tax form, I entered my payment information and presumably I have already been charged. To my dismay, the "e-filing" offered by "Free Tax Return" for state returns is a partially-completed PDF (apparently drawing on some information from my federal return). I must download this half-complete form and mail it myself. Deceived by paying for an "e-filing" that isn't</p>

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	an e-filing, I looked for customer support. To my chagrin, "Free Tax Return" does not offer telephone customer service. It offers only e-mail customer service--I have to pay \$1.95 for non-tax-related questions. I refuse to pay money to demand my money back. For this reason, I would like to communicate with the IRS official who can assist me in retrieving "Free Tax Return's" ill-gotten money. I plan to seek other action as well--the Better Business Bureau, my Congressional representatives, etc. I trusted the IRS in its selection of Free Alliance Companies to choose those vendors who would not to rip-off taxpayers. Until now, I have never been the victim of Internet fraud--I am appalled that it comes through IRS auspices. Please feel free to contact me by return email or at . I request that you contact me promptly so that we can resolve this matter. I appreciate your kind attention to this matter. Thank you for your help.
1012729	I just want to know where I can efile my taxes myself to you without paying for it. I have a W2 that states I can do it at your website at www.irs.gov. But I have been there several times and have tried several different areas and I can't seem to find it so Help! Nothing about this site is easy or fast. What do you suggest?
1013039	what if i already started the filing process through the turbotax website? can i go back and access the site through the free file page and continue where I left off or do i need to create another login and start the process over again?
1013228	Hello, I am trying to take advantage of one of the free federal e-filing offers that are listed on your website. I thought under the warnings I read that I needed to contact the free e-filing company with a link through your website. I chose 'help me find a free e-filing company' from your home page, filled in the questionnaire, chose submit and then got a message that I was leaving the IRS page - is this correct? Please respond asap, I am anxious to get this done and we really need to get our refund as soon as possible! Thank you, Colleen
1010069	Hi! I accessed taxengine.com from your free alliance website. They advertised their services free from your website. There were no restrictions and everyone qualified as long as the website was accessed through irs website. When I completed my tax return and was ready to e file they said I owed \$29.95. I emailed the company and they said they would research the problem but I still have not heard back from them. I would like to know who I could contact about reporting their false advertising. Thank you for your time.
1009963	I used one of your free file tax services. The company was Free Tax Usa. I had my return rejected five times and every time I tried to contact them for assistance there was no response. They do not use a phone # only an e-mail. I paid \$14.00 for my state taxes to be filed. The state of Ga will not accept the form until the federal tax is accepted. They still haven't returned my money after three requests. They have all my personal information and I can't contact them. Give the tax payers a break and don't offer services that hurt more than they help.
1010016	I have filed a tax return last year 2003 tax return. However, this year I purchased Turbo Tax and it is not liking what I am inputting for my adjusted gross income. Is there a way to get a copy of what the IRS has to what I have???
1010074	I am retired and not too savvy, can you please direct me to the website, that I can due my taxes ?
1012774	After I went to file free (I thought I could use the IRS site but I was directed to a 3rd party site, I picked H&R block). After I did not upgrade my tax service and pay 19.95 the site stop working. I will now do my taxes on paper after about 13 years of H&R block in person and 1 year of a SW tax program.
1015247	I went online to FREE FILE my taxes with the IRS. When I was done I got charged \$29.95 for the return and \$11.95 to direct deposit !!! What's up with this? I thought it was supposed to be FREE.....\$42.00 is not free in my book. Please help.....
1015115	According to the Wall St. Journal TurboTax basic tax preparation software is available thru the IRS website at no charge. I could find no links to TurboTax at the IRS web site. Can you help? L. Bush

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1015246	Sorry, I think e-file is baloney. I'm a computer expert and I'd love to do it. But not if I got to pay someone \$20, then make certain of refund, etc. A 40cent stamp is easier. I do everything I can electronically, but seriously, you think all those hoops is easier? If it was a web form or something, fine, but it's not easy! david
1014675	I logged onto the www.irs.gov website, clicked on free file home page, clicked on TurboTax, and the next selection was to leave the IRS website. However, on the home page, it clearly states that if you leave the IRS website, you could be charged. Help. If I click on "leave the IRS website, will I be charged? I'd like to see if I qualify for free filing.
1015460	I have filed electronically for the last few years with Turbotax. This year, Turbotax error check says that I am not eligible to file electronically as I have more than two copies of Form 8283 in my return. I had 6 copies of Form 8283 last year an was able to file electronically and all was well. Have the rules changed? Can you help me with my problem? Doug
1015672	I TRIED TO DO MY TAXES ONLINE AND I PUT IN THE WRONG INFORMATION. I CONTACTED YOU AND YOU SEND ME AN EMAIL WITH AN 800 NUMBER. THANK YOU, BUT I'VE BEEN TRYING TO REACH A SOLUTION TO NO AVAIL PLEASE ADVISE ME AS TO WHAT TO DO. YOU SENT ME A TRACK NUMBE--421144--PLEASE GIVE ME SOME ADVISE AS THE IRS THINKS I OWE THEM \$1,749.00. THANK YOU--PHYLLIS
1011871	good morning ! does Illinois have a free state e-file site? I've looked but can't seem to find one.
1011648	I tried to use the efile link to fileyourtax.com (one of the "free" non governmental service providers listed). I STRONGLY recommend that link be severed. I had a horrible, unresolvable experience with that service and no way to redress it. I found the whole experience confusing and was given no way to cancel it. I will submit a paper tax form now, but am worried that this outside agency now has my information. Who may I contact to reach them? Their website did not offer assistance unless I paid for services. The link on the irs.gov/efile site said that,as a resident of DE, I would be eligible for free efile filing. I believe this is misleading and false considering that the outside provider (fileyourtax.com) would not allow me to complete the file unless I paid 19.95.
1012088	Greetings, I cannot understand why one has to pay to file the required governmental taxes on line. We just filed with TAXSLAYER.COM, which was listed on the IRS website, and advertises FREE filing for anyone ove 61 years of age. I am 65. After spending 2 1/2 hours filing all the data, I had to authorize them to take \$9.95 out of my account. That is robbery!!! Can anything be done about this.
1014302	I heard on NPR this morning that TurboTax and Tax Cut are available free on the IRS website but I can't find them and nothing came up when I used the search function.
1014189	Please look into the company eSMART tax, as they are very deceptive about what they will do for free. Their website ad clealy shows they will do a state income tax free, and after I qualified for the free federal 1040 EZ, I did the state, but before I could send it they wanted money, also when I wanted a copy of my 1040 EZ they wanted money. I haved used other companies from the IRS.gov site that have let me do these for free no problem--for my kids with their little summer jobs to get back the income tax they paid in. Please do something about these shady folks!!
1014286	The radio announced that turbotax was available free from the IRS.gov website to facilitate electronic filing. I have been to the site and searched and searched and I cannot find it. Can I get turbotax free through the IRS site and if so, how do I do it? Thank you
1011108	I am trying to use e-file to do my taxes and there is no where on your IRS site that allows me to start. All I do is get sites to answer questions. Please advise! Thank you. David
1011527	I was going to e-file this year, so I tried one of the companies on the IRS website: Onlinetaxes.com. At the beginning they state that e-file is free for everyone. After spending 2 hours completing my return, at the end a fee of \$7.95 is required. I have sent an email to the company, but I have not received a response yet. At this point, I am not

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	willing to take the time and try another company on your list, so I guess I will just mail my return again this year. My home state, PA, allows taxpayers to file directly online, without a third party involved. This has always worked fine and would be a good model for the IRS to follow. Why are the third parties needed?
1011435	I linked to Turbo Tax from the IRS web site. When I completed preparing my Federal and State taxes, I was given a charge for preparing my returns. I contacted Intuit and was told that I did not meet the qualifications for free preparation and filing. I quoted from the IRS web site under Free Alliance Companies "Free federal online tax preparation and e filing for all taxpayers. No restrictions everyone qualifies". That is very clear although Intuit said they did not control what is on the IRS web site. This seems to be deceptive information. Something is wrong here and the IRS should correct this immediately. I have spent a few hours waiting to talk to Intuit at least three time. I would appreciate your help in this matter. This is like bait and switch game
1011375	hi, i was told that i can get free turbo tax deluxe software from the irs, or something similar. can you please tell me how . thank you michael
1012353	I accessed your service through the IRS website but it still is charging me \$14.95 for fed and state filing. I thought fed was free using the IRS link but it is charging me \$5.95 for the fed filing fee. Please clarify as I would like to send my return asap. Thanks.
1012621	I can understand that it is quicker and more efficient to have taxpayers efile, so why on earth do you charge 15.95 for the privilege?
1013846	i use your web to do fed tax summary come back all wrong in wages so if you can send me a email that wii do my tax free and right.
992502	I FOLLOWED ALL STEPS FROM THE IRS.GOV TO FILE A FREE ONLINE E-FILE FOR MY TAXES. I SELECTED H&R BLOCK WEB SITE. IT IS SAID, "FREE ONLINE AND FREE E-FILE FOR ALL WITH NO RESTRICTIONS. HOWEVER, ONCE I ALCOMST COMPLETED THE TAX RETURN, THE H&R BLOCK WEB SITE REQUIRED \$29.95 TO FILE MY ONLINE TAX RETURN. THIS IS A FRAUD FROM THE FREE E-FILE ADVERTISEMENT. PLEASE INVESTIGATE
1011297	I tried to get into the Turbo Tax free site. I could not get past the screen that said "set screen to correct screen resolution. My screen is set at required setting but I could not advance the program. Could you assist me with this?
996447	Great idea to have the free e-file programs HOWEVER I think there should be a disclaimer on TurboTax's description. First remove the line that says "No restrictions.." and insert "IRA contributions and deductions are NOT supported so don't waste your time here if you made even a minor contribution." I wonder how many people have blindly followed TT's instructions and do not realize they may be missing deductions. You certinatly get what you pay for. Thanks and Goodbye
997193	Please be aware that H&R Block IS charging for the tax returns although your sight indicated they would not. After all the information was entered, they insisted on a fee of \$29.95. This is upsetting, because now they have all the personal information and it will not be submitted.
996819	how do I file thru the IRS electronically?
995253	i linked from the irs website to free file at h and r block. however i was charged to efile. h and r block said that in order to efile for free it doesn't work through linking from the irs. yet, the irs website said in order to get free efile, to just link from the irs website.
995419	I entered site www.irs.gov. To mt amazement an item called taxAct appeared. MY answer. I followed instructions for download. I was given a cust id #5828687 and a tax name to be downloaded. the name ta04stdw.exe. I also created a password. Towards the end of the download last ll minutes my connection was interrupted. My computed read I had an incomplete file, that could not be opened. I deleted the bad download and returned to the website, without luck. I feel the site recognized my computer and i was out. It could not know the process was aborted. Empty handed, what do I dpo now doc?
997456	The Free File Alliance lists TurboTax as a company that assists taxpayers who qualify for

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	free tax preparation and filing for both Federal and State taxes. However, upon reaching the "Finish" portion of the return process, they request a \$19.95 "Preparation Fee" as well as \$19.95 for the State return. This company is soliciting for business under false pretenses by saying they offer "free" tax filing, when, in fact, there is a charge. Just for informational purposes only, my AGI is \$17023.00, which means, to my understanding, I should qualify for completely free tax preparation and filing through the Free Filing Alliance companies. Sincerely, Lisa
993056	I am concerned that one of the main e-file links on the IRS site is a scam and should be investigated. The site causes you to have problems (that conveniently need solved at the price of \$6 per question). The link is titled FREE TAX RETURN or something very similar, but the company is #1 Discount Tax Return Services LLC. I have asked them a simple \$6 question twice and the response has been, "review the information." I called the IRS and verified that my information was correct, but I am still getting no support from the site. I highly recommend that the site is taken off your preferred list of links. There is some level of fraud there, even if it's unintentional. Please inform me of your intended course of action to resolve this. I've now spent \$12 on a "FREE TAX" site. If my questions were answered satisfactorily, I would not have a problem with this. But I'm not getting an answer at all. There should not be a charge for that
992863	I just helped a person with their taxes and used the free site for turbo tax and e-filing. Yet it cost her almost \$30. So this is free????? Or is it a scam?
993066	Looks like www.completetax.com is no longer up. Haven't been able to get into site for three days and I am worried about the info I put into to do my son's taxes last week. Any ideas? Pete
998452	If I have an accountant prepare my return but he doesn't have the computer to e-file it, can I then go and file electronically through one of your site listings? Alana J. Baker Engineering Assistant 410-471-6001 ext. (4097) Northrop Grumman Corp. Electronic Systems 7040-B Troy Hill Drive Elkridge, MD 21075 [mailto:alana.baker@ngc.com]
1001574	I filled out my tax returns with H&R Block on January 30th. I accessed the site through the IRS link, which stated that the e-filing would be free of charge. However, after going through the whole process towards the end it claimed that I would need to pay a charge of 19.99. I was confused as to why the provider was charging me when it had initially stated that it was free. My name is Sui Ochoa my phone number is 630-736-8460 and email address is VBallochoa17@aol.com. I believe I have provided all the info necessary and will be looking forward to a correction of this issue. Thank you.
995517	I tried to use free file this year. I had already done the calculations using Excel so knew what the bottom line should be. I figured free file would at least save me 37 cents postage. I chose Turbo Tax, got through to the end but abandoned the effort because they missed a key deduction: My DC income tax withholding. I filled in the W2 information so they knew how much had been withheld. But when I got to the deductions section they asked for the sales tax rate and then declared that the sales tax option would be chosen since it would work more to my benefit. Wrong! Arguably they should have either calculated my DC tax or asked me what it was going to be. (I owe a few bucks.) Bottom line: My return is in the mail. Maybe next year ... Scott
995631	I assist my son and daughter-in-law by e-filing their taxes using the TurboTax program on my computer. They live in Tennessee and I live in Georgia. This past week I had completed the tax preparation process with TurboTax for them and had initiated the e-file process. The next day I received e-mail notification that their forms had been accepted, but when I opened TurboTax I could not locate their tax form for this year. The only thing that I can figure out is that I accidentally overwrote their files with mine when I started my tax preparation process after completing theirs. I can not complete the process for them because I do not have the original files. I do go back in and re-do the files for them, but they (of course) are not the originals. The question is - What should we do now? I have notified them and the Santa Barbara Bank and Trust (the bank who handles the fees and

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	direct deposit for TurboTax).
998528	H & R Block is providing FALSE information to your site. They claim to provide free file services and I still had to pay 29.95. I have contacted them about this to no resolve. They sent me a message claiming that the only way to receive Free Filing was to enter through the free file alliance link: Fee-based Offer Information: If you do not access H&R Block's Free File Program through this www.hrblock.com/goto/ffa Free File Alliance website, then a fee for the program applies. This was not true - because it takes you to the same place that the IRS link takes you to. Can this be corrected?
1000186	To whom it may concern: I noticed that the IRS does not provide an option to e-file independent of private for-profit companies. Why is this? Your stated goal is to have 80% of tax-payers file electronically within the next couple of years. Yet, by requiring the usage of for-profit companies, it seems that a 37 cent stamp or two is much cheaper for most people. Most European Union countries provide free government approved software to the public for e-filing. I am a programmer and would not be adverse to filing my taxes electronically myself if the formats were openly available and it was possible to digitally sign the form myself. Is this a possibility? Can you point me towards the specifications or are they not publically available? Thanks! Dr. Tim
997981	I am using an IMac OS 9.1 and can not get the H&R Block or TurboTax free files to work for me. I have tried these with both Internet Explorer and ICab servers. Is there a service that supports this IMac system? Or, what can I do with the services that I have tried? Thanks, Roy
1000275	Good afternoon! Could you help me, please? Today, I use E-file(free) for my tax refund with No. Discount Tax Return Service LLC. I have refund for my tax, but I forgot to put my Bank Savings Account, to get my refund electronically fast. I have confirmation number from IRS. I submitted my tax return to the IRS on 02/06/2005. I would like to send my Bank Account, for my refund. I need your help. My E-mail address is: salatar2003yahoo.com . Thanks in advance. Best regards. Veso Salatic 1340 South Elmhurst Road G14 Mount Prospect, IL 60566 P.S. My filing status is: Head of household. Would you please, to help me?
999336	Ok you got links to services that will do a efile for free, that good, but most of them just throw you to their web page and hide the free thing from you hoping you'll pay them money. either require the IRS go directly to a page that represent the free stuff or remove this service from the IRS page. All your doing is acting as a profit center for those business by referring people to sites that show only pay me money items and its difficult to find the supposed free filing. The best solution is to require the link to go to a page they set up for this with the primary purpose of providing the stated free service and than they can have links to their other pay services. Please take this seriously the future of American culture is in our hands, lets make it a Culture with integrity...pls respond back with a confirmation that this has been received.
999312	No matter which vendor I tried, I get error message when trying to leave your IRS site
1006396	I linked to H&R Blocks Web site via the free file link on irs.gov and filed, at the end they are asking for \$29.95, I thought free file meant free? Why are they charging me? Any info will help, Thanks! Regards,
1006412	My complaint is that I was lead to believe that the below service was a IRS service, and no mention of fees was ever shown until after the return was accepted by you. I know it's not your fault, but this other site should warn people that it is a commercaill sit and not part of the IRS. Dean Hill Main Login You are logged in as: deanhill51@hotmail.com Your Return's Status The IRS has accepted your return on February 4, 2005. You should receive your Express Refund Transfer(RT) by February 18, 2005. You will be able to print a copy of your tax return on February 18, 2005
999491	Hi - I was recently watching a local news broadcast and they said something about free tax prep and filing help through H & R Block....here is the article : "H&R Block is joining TurboTax in offering free preparation and filing help with federal income tax returns. In

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Reference #	Question
	order to get the free service, taxpayers must access H&R block through the IRS Web site and have a maximum income of \$34,000 a year."However, I can not seem to find exactly how to access H & R Block through the IRS.gov website. Can you please tell me how to do that so that we can utilize this service mentioned in the above newscast? Thank You!
1006360	I was wondering which one of these sites are more secure,safe and accurate? Can you give me your opinion of which one you would recommend? Thank you, Kim
1004824	I am trying to file my taxes free thru the IRS and HR Block free service. It will let me setup a password and user name but that is as far as it goes. Then the screen has the small green square and HR Block next to it and the next line says return to taxes. No matter which one I pick it says that I have been signed out and if I want do do my taxes to sign back in. I repeat the user name and password but it goes right back to the same thing. It never goes any further to let me do my taxes. What am I doing wrong. donna728@msn.com
1003020	I filed using TaxEngine.com, one of your free file sites. This site stinks, to say the least. I didn't request an e-file because I didn't know the amount of last year's return, but they e-filed it anyway. I could not view or print any of my tax forms. So now I don't know what will happen to my return. Thanks a bunch.
1002855	I used your website to find a company to e-file my return and chose torbo-tax. After preparing my taxes on this website when I went to electronically file they informed me that I owed them a 39.95 preparation fee and there site said it was free when I selected it. This company is putting out false info regarding this service. I guess they are right when they say nothing is free.
1003492	I did not ask about electronic filing. I was inquiring about the fact that I had been told that a version of the software Turbo Tax could be downloaded from the IRS website. Is this true? If so, how do I do such a download? Lloyd
1006004	I am unable to enter the taxact.com site through IRS.gov for the free e-file. Is your server down? Thanks
1002534	I e-filed on Sunday my federal return, but last night I need to get the last form signed so I could get it direct deposited into my account. The problem arose after I found the information that I was looking for, I decided to file my state taxes, but on the e-file program I used last night is the one I originally wanted to use but I could not because it would not work on Sunday. When I finally got it to work it was suppose to let me be able to file my state for free, so I wanted to use it but in order to send my state taxes off, it also sent my federal taxes off again. What should I do in contacting the proper IRS department to get the situation straight.
1008890	I linked to HR Block site through the IRS.Gov site as directed to file a tax return for free and HRBlock would not efile until I selected a payment method. There is also no way to remove all of the information I submitted to them or undo the return. I do not remember having to provide that information last year when I linked thru IRS site.
1009045	What is the address of the site to download the free H&R Block Tax Cut program?
1007444	I tried to file my taxes using your "free" HR Block site. I made sure that I went through your site each time that I logged onto HR Block.. However, because the internet kept kicking me off, I wound up having to pay for the "free" filing anyway. Just thought you might want to know about it. Thanks.
1009780	Does the IRS web site for e-file and free file support the internet browser Mozilla Firefox? After I file my tax report, I want to print it out and need to be sure that I will be able to do it. Thanks Linda
1009681	I reported a question some two weeks ago but did not get any reply. How does Free File work if you need to file 1040NR, as it seem the companies do not support this form! I look forwar to hearing back from you.
1007382	Would like to know why when I attempt to open one of the free e-filing site I get "unable to locate page" ? I get same message no matter which tax site I hit. Does that mean that

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Reference #	Question
	they are busy? Thank You
1007404	My name is Ainsworth and I want to know if I can file for FREE with my Form 1099 B, 1099 DIV, 1099 G and my W2. I am not dependent on anyone. This is my first time doing it myself online! I was also sent a form giving me an option of telefile. What do you all think? Should I go to my local office? Let me know! Have a great day and all the best!
1009477	Hello, I e-mailed another section of the IRS regarding this problem this last Sunday evening, but I never received a response. I used the Free TurboTax Standard return form accessed through the IRS website and when I finished my returns the site wanted to charge me a 19.95 processing fee. this was on top of the 19.95 State fee. Yet throughout the entire return filling out process, each page indicated that this return would be free. Would you please investigate this and let me know what is going on, or what I missed. Thank you for your time.
1008780	Everyone is saying that Turbo Tax is now available free through the irs.gov website. I don't find any information about it anywhere in the site. Where's the information and how can I get Turbo Tax through your site?
1007907	I tried using HR Block as a returning filer on the free efile. I get to the pages where I agree to the terms and click the circle yes and it says to click next, but there is not next and the page keeps coming up as an error. I couldn't find anywhere to contact them. Can you help me Marj
1007706	I am using the free turbo tax program and am at the point where it is asking for a promotion code to continue or for me to pay \$19.95 for my state return. I live in one of the states (Michigan) where I can e-file for free through the free file alliance. Please provide the promotion code to me, or tell me what to do to continue doing my taxes on-line as I am ready to e-file and do not want to pay any fee. Thank you. Please respond SOON.
1012030	I know the IRS wishes that as many people as possible would e file. For myself the problem lies in I refuse to be charged to do this. Until it is totally free I will continue to do my tax returns as a mail in. Thank You Darlene
1007717	Hey...Just want you to know that we will not e-file this year...tried two of the companies on your list...H&RBlock and E file ..The first one would not finish the program...they said all I had to do was file...welllllll it didn't work not at all.....Then tried e-file they changed the pricing after they got all my info...Federal would cost 29.95...it was supposed to be free....I have to say I am discusted with the whole process...I could have mailed this stuff two weeks ago...Just thought you should know what's going on on the internet info you provide....
1007935	The complete tax .com website is not allowing me to file my return for free. it says i must pay \$32.95. i did go throught the irs.gov website to get to them.
1008027	Why can't I file electronically at a government website without going through your partners and paying? I will continue to file with a paper return and not file electronically unless I can do it free and directly thru Uncle Sam with my computer. I do not agree with the present "free Mickey Mouse system of "pay up front and then apply for a rebate."
1007725	Is it possible for me to use the Free File if I have to file an Injured Spouse Form 8379 ? If so how do I access that form ? Thank You, Linda
1007824	You advertise that you can e-file for free, but yet you go thru all the steps and you want to charge this and that for us to get our money. That is FALSE ADVERTISING!
999638	how can a person go online and file their taxes free and fill out the form themselves?? where do i go to do this?
1010015	i recently tried the free e- file using a company through the irs.gov. site called esmart it was very confusing the calculations were wrong so i used another site www.taxesonline which the calculations were right is there any way i could disregard the the first site without having any penalties .
1010220	I have me taxes prepared by a certified accountant. If I wish to take advantage of the FREE EFILE links offered on your website, can I send the prepared copy I paid to have completed in as the hard copy or do I need to send a printed copy of the EFILE copy I

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Reference #	Question
	send electronically
1006945	TurboTax is trying to rip people off by charging \$20 for state taxes and \$20 processing fee after you've done all the damn working entering the stuff online. \$10 for state would be OK. But otherwise they are ripping the public off on a free service
1007159	I filed my taxes off a link from your home page. The organizations name is thetaxexperts.com. I believed that it was a free site. I found out differently. To make this as short as possible I'll just say, when I filed they said it would cost \$44. They wanted me to let them do my state return and I declined. After filing the federal form I was told I would receive my copies by E-mail. I have not. I also discovered they went ahead and filed my state taxes as well. They are going to charge me an additional \$35 for that. I filed single no dependants with only 1 w2. I received indications that they were planning to give me a Loan against my return I did not ask for either. After the fees for the loans and bank charges my fees are looking like they want somewhere around \$151. Why are you allowing such fees to be charged by people you let advertise on your site? Are there caps as to what they can charge? Plus I try their live help link and its offline. I try their E-mail it gets returned. I at this point have yet to be charged for any of their fees because my refund was offset thank god. You need to be more cautious on who you allow to advertise on your web site. I am sure I'm not the only one they may take for extreme fees. Please advise other taxpayers to this unfair if not illegal organization and the others that may prey upon taxpayers. Thank You for your time. If you can get to the bottom of this and also get me copies of my return I would appreciate it. Phillip K. Rietz
1010807	Why when I get to the end of the return does it give me a charge of 38.75 to file federal and state returns for my son who is a college student with income of 4323--I was looking for a service to be able to file both free for him--thanks
1010912	Hello: I was looking through website to do my taxes. I clicked on " TAX\$IMPLE " to try. The first thing they want from me was socail security number and some other information before I could use the website. The problem is: the address for the first page of website is NOT a "secure" page. So any info I would of typed in there and clicked started would be transmitted over the internet for anybody to receive.. I plan on using another website myself BUT thought you might want to check it out before to many people put info in that page and send it out to everybody. Thank you for your time on this matter.
1015652	I keep reading e file is "fast and free." But yet all the sites you lead people too are indeed charging at least \$7.95. FYI.
1015715	I completed my tax form on efile tax returns and had a question about my return. When I attempted to e-mail them a question, their e-mail address was no good. I accessed their site through the IRS site. Now I am concered that it is a bogus site and I have just devulged to them all of my personal information. Is this site for real, and if so, what is their customer service address? Thank you for your prompt attention to my concern.
1011591	We first attempted this last week, probably on the 2nd. The site took the information and then when I went to print a copy, it went into a loop and ran for about 5 minutes. We tried to contact the site about the problem, but it did not go through. We exited the site at that point and went back to the irs site to look for a link to make a complaint. The link on the site took us to a specialized email system that you had to sign up for, so we left that and I sent the email from my own account. We came back in 2 days later and tried to send the file. Again, it got into a loop and continued to look for errors in the file. It timed out twice. By this time, my son had entered his debit card info, and was subsequently charged. The file did not go through and this time we were able to email the company directly. They responded by telling us to click the button once while it was going through the forms (which we did - only one click). We returned yet again and tried once more, inputting the information for another charge of \$9.95 (on a "free" site). It locked up as before and we sent another email, again asking them to remove the charges. This time the response was to reboot the computer. Currently, my son has two charges for \$9.95 on his account and the taxes have still not been filed. > Your telephone number and/or email address so that

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Reference #	Question
	we may respond > to you if necessary. 314-772-3791 z.allen@lycos.com The spirit doesn't care why we do the right thing so long as we do it
1011658	CompleteTax.com does not offer free prep if AGI is below \$28500. This is false and misleading. Please remover this info and discription from your website. CompleteTax.com tries to trick the user into selecting the option for a "non-refundable" payment. This service should not continue to use IRS.GOV to perform fraud. IRS.GOV may not support this website, but they do offer false description which allows CompleteTax.com to cheat and lie to American taxpayers.
1012099	Free e-file is a farce - example: completetax.com , the 2nd choice on your free e-file list states "free online federal tax preparations and e-filing if you have an agi of \$28,500 of less" - It is not free as my agi is \$18,405 and they were still going to charge me the \$26.95 fee for e-filing - why even put all the taxpayers money into developing such an elaborate scam? I'm sure that I am not the only one who has went to this page and discovered that it was a farce - but how many others went ahead and paid the fee - which governmental officials are getting a kickback from the proceeds these companies are making? I can't believe that someone else hasn't complained before. The only expense the e-file tax company has is the cost of the software and the cost of setting up and maintaining there web page. I must say, someone was on there toes thinking up an idea like this!!!!!!
1011189	I tried to use your free filing through TaxSlayer. It figured my taxable Social Security income was almost twice what I reseived. I don't think I will be filing electronically.
1011225	i have filled out the information page for the "find a preparer" section of your website, only to receive absolutely no response at all. i don't believe i filled it out incorrectly
1011318	I tried to navigate your web site on Saturday night, with no > success. > I've prepared hard copy tax returns, want to e-file, & I cannot > find > e-file information. So, I called the IRB today. The person I > spoke with > said you have links to providers who will help me e-file. I do > not see > that on your web site either. Please help! Completing tax > returns are > easy. Finding a way to e-file them takes longer than completing > the > forms. So, can you please help make this web site user friendly? > Thanks! >
1014220	Viewing the website of e-file partners, I have noticed, they all charge a fee for downloading the necessary software. To your knowledge, is there a website for free downloading?
1011418	Hello - Over the past few years, I have filed my taxes via the IRS TeleFile form. I moved from Maine to North Carolina in the middle of October 2004 and did not work for the remainder of the year, so all of my income last year was from Maine. Will I receive from the IRS another TeleForm with an assigned filing number to use and/or can I e-file instead? Thank you for your reply. Bonnie
1011475	I have a complaint about your FREE turbo tax program. I have used turbo tax in previous years and it always transferred my data from the previous year. When I signed up for the free turbo tax on the IRS site, I left the IRS site and was connected to the turbo tax free website. PLEAE NOTE THIS: When I did this there was NO disclaimer that stated data is not transferable, however, since I have called turbo tax to point this out to them, it is now there! This is the statement that is there now Note to customers who used TurboTax last year: the Standard product will not import your TurboTax data from last year s return. This was NOT there until AFTER I called and told them about this. I want this made clear from now! In the meantime, I cannot cancel the sign up I did with the free IRS program, and I cannot get access to the data from last year because I already tried to file through the IRS site. The first time I contacted turbo tax, I was told to delete everything I entered and start over from the turbo tax site. I did this and found out that that would not work, and that I have to start completely over, including all the information I entered for this year's return! Turbo tax told me that you, the IRS, is responsible for this glitch, so I am asking if you can completely delete anything I entered through the free file program so I can go back to the beginning with turbo tax and start over so I can transfer data from last year. I would appreciate a response from you regarding this because I do not want to start over if I can

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Reference #	Question
	get rid of the IRS free file and start over with last year's data. Please advise! Carmella
1012419	I have already purchased Turbo Tax and just found out I can file for free on your website. Can I still use my purchased Turbo Tax software and file on your site? If not, can I transfer my existing data from last years taxes to your site? Is there any difference to your Turbo Tax software and what I purchased? Thanks in advance.
1015759	Tax Act purports to do FREE efile but both my daughter and I were charged 7.95\$ per return. Between us, we earned 17K this year and are both in college and working. To have these people listed on your site when it isn't free is real uncool. Just my opinion. Thanks for your service to my country. D.Sikora
992368	I have just tried to use the H&R Block free tax program to file my tax return with dismal results. Their program would not allow the editing of information that was recorded and continually referred to the point that did not contain the information to be edited. They did not have any help items for the situation unless of course you would use their upgraded system or a TaxAdviser that had a price tag attached. I thought this method of filing is to encourage tax payers to efile direct, but the way H&R Block is presenting their program (a cost at every turn) I would suspect taxpayers would be inclined to look to a different way. I did find another provider that was ready to let you file and correct as needed and I have filed. But H&R Block is bad!!!
995760	I am looking for a website that I have been able to access with ease the last 6 years, but which I seem to be unable to find this year, wherein I had less than \$10,000 worth of taxable income and substantial student loan outlays each and every year and was able to file for free. I have tried going to the official US IRS website and all of the linked websites I have accessed cost money. Why are they officially registered on my government's website? Obviously, if I have earned less than \$10,000 in the last year, and the poverty line for my income level is almost twice what I have earned after 11 years in training at the University level, I could pay, if I deprived myself of food or heat, but I cannot pay a fee for filing without doing one or the other. Why is there no direct link to the IRS website, no direct filing with the IRS? After this amount of time in school I could not pay attention if it cost money. Please direct me to a website that will allow me to file my federal taxes without the intervention of an outside agency. I cannot believe that my government has turned over such a basic function to outside agencies whom have only the bottom line in sight. Their sites are not easily navigated, and as a recent graduate with multiple employers for the last year, I find that they are certainly not simple to use; as soon as I enter one employer they wipe out the one I entered before. I just cannot understand why my governmental agency cannot electronically perform this task themselves. One would assume that you would have the very best software and resources available. Sorely confused and in need of my refund, I remain, Sincerely yours, Kelly
996177	Please post the following or similar warning. DO NOT SIGN ON or SET UP AN Identity from any page But the one linked to this site.. Free state must be found there is a hidden link and then u must establish your identity from that page in order to qualify for both state and federal. TY Larry
997352	This isn't a technical issue, but I linked to the H&R Block website through the IRS.gov website, filed electronically and chose direct deposit - just like I did last year (which was also free). But for some reason this year, I was charged \$29.95!! It was my understanding that all filers with income of less than \$100 million would be able to file for free. Why was I charged \$29.95 to receive a \$309 refund?! Sarah
997818	Our e-file was returned because of code 0674 which is a problem with a pin number. The service I was directed to by your site was suppose to be free but now that they did not ask for a pin number our taxes were slowed up and they want money to correct their error and add a pin number. I do not feel you should endorse this scam by sending poor people like us to them to hurt financially. This is their site: no1-income-tax-return-submitting-specialist.com I hope you take it off your site for 3 years I have filed our taxes online and hve never had a problem. James Pyle I am trying a different tax services but because of

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Reference #	Question
	no1-incmoes-tax-return-submitting-specialist they wasted 3 days of my time. We pray the next site recommended by you taxslayer.com will be more effcent then the other site you recommended.
997914	I understate that free tax software is available but I've searched the irs.gov site and could not find where to download the free tax prep software. (I don't want the online tax prep link) Please let me know on this. Below is the excerpt from the local paper alerting me to the free software."TAX PREP, NO CHARGE Nineteen software programs, including versions of Turbo Tax and TaxCut are available free through www.irs.gov"
998550	I would love to e-file some simple returns, except the outlets the IRS is connected to all charge a fee plus how secure will the information be and what guarantees are the IRS going to afford people about their private information. Thank You
999236	I accessed the free tax filing service OnlineTaxes.com via your IRS web site. However, after I entered all of my personal information, OnlineTaxes said I had to pay \$8.95 for my federal tax filing. On the home page for OnlineTaxes.com I checked for the free federal filing service. It seems as though OnlineTaxes.com is blatently trying to rip off the poor, (my income was only \$6,600 last year). Please remove the false statement from your web site that OnlineTaxes.com offers free filing, as this is a lie, and may be a more serious offense. Thank you.
999577	Webmaster, Your page "Guide me to a Service" to determine which company I should seek out for free e-filing, does not work. Twice I filled out the form, hit submit, and the unfilled out form was brought up, with no messages whatsoever. Could you please address this problem promptly. Thank you. A Tax-paying American
998184	Hi, I know that you post that you are not responsible for the free tax perparing services that you have linked on your site. Though I am hoping that if enough people complain that you might remove a site. I am having trouble with Turbo Tax website. They have a bug where it states that I have an error in my return and I need to fix it and when I click the button it takes me to another part of the program and then back to you have an error. Prior to this problem they request my credit card info so I could be charged to file my state tax and also the filing fee. The problem I see is that I am having the hardest time trying to talk to customer/technical support to find out if I am being charged and my tax return is in limbo. If you get more complaints I hope you take time to review Turbo Tax status and should not be listed. Thank you Scott
999762	I'm trying to find a link - somewhere - to free downloadable software so that I can prepare my taxes at home at my leisure. All I can find with my searches is e-file online programs. Help!
999706	Your website is not working properly for Free tax filing. The Instructions to go to individual companies goes out of IRS website and then it does not have any excess to free filing. Please review the arrangement again and guide us properly
1000396	Went through the process of using a free tax service (TaxEngine). I was taken to a page that said: Thank you for participating in the IRS Free File program. Prepare and E-file your 2004 federal tax return for FREE! Add a state for only \$10 After going through a somewhat confusing process...I was instructed that there was a \$29 filing fee for federal and that the state return was free. I realize that the IRS is not responsible for their actions...but this is deceptive (and a waste of time) to those directed to this page. Please assist. Thanks.
999794	I accessed the HR Block website through the IRS free file website, with decidedly dismal results. What follows is a copy of my letter to thier customer support: "I accessed your free TaxCut software through the official IRS website. After 2 days and 5 sessions spanning several hours, 3 browsers (Netscape6, IE 5.2,and Safari), 2 operating systems (mac OS 9.2, OS X 10.2). I have filled in the following fields: Married, with dependent children, filing jointly. The software would not import last years TaxCut data (a product I have purchased for many years despite the heavy premium charged to Mac users). This user-unfriendly experience has driven me to abandon my online efforts and purchase your competitor's

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Reference #	Question
	product. I will share my feelings with any that will listen and send a copy of this missive to the IRS through it's free e-file website. your former customer, Glen Clark" I don't believe HR Block has any interest in providing a service that will not make money for them. Thank you. Glen Clark Glentok@earthlink.net
1000637	I have questions about the FREE File programs linked through the WWW.IrS.gov site. Last year I accessed a FREE site linked from the IRS site and at the very end of my filing I ended up being billed from my refund quite a bit of money. Determined not to be taken advantage of this year I have again attempted to file for FREE!!! I went to the HR Block link from YOUR WEBSITE spent an hour filing out forms on line only at the very end yet again being offered the options of how to PAY for this service!!!!!!!!!!!!!! I want to know where exactly I need to go to actually file my taxes FOR FREE on-line without wasting hours on end only to be charged for the free services advertised!!!!!!!!!!!!
1002169	If you use the irs web site and go to free file on the site then to taxact.com this site doesn't offer free online filing for the federal they want to charge 7.95. I called 1800-573-4287 and the operator said the same thing that if I wanted to file electronically I would have to pay. They irs web site clearly state free electronic filing through this company. They are on a national web site and committing fraud it seems like if they did it to my friend how many other people are they doing to
1002773	I want to inform you that I filed my 2004 return via Turbotax.com using free file, and their site has something in it which caused my computer to crash the next time I powered it up, and I am sure it was their site because I turned my computer off after I was done filing and did not do anything else after leaving their site. The crash required reinstalling the Operating system as well as everything else I had on it. In addition, now that I have returned to their site to check the status of my return I have popups coming on my screen, trying to scare me to another website which will remove the spyware. Turbotax should be removed from your links page.
1003459	Hello, I accessed 3 different "free" efilers from your website & all three tried to charge a fee. I didnt appreciate receiveing false/misleading information. I will file by paper & mail my return rather than submit to trickery.
1004320	Where can one actually FILE their return on this site? Too many questions and other distractions! Where is the actual file page? VERY DIFFICULT!
1001872	To repeat what I said in my original message: I started at irs.gov and after answering the qualification questions (AGI < 28K) I was directed to several vendors. I selected TurboTax from the irs.gov list and used the link to go to their site. I carefully stuck to the 'free filing' directions and pages. Near completion of the filing process with TurboTax their directions were to pay a \$19.95 preparation fee as the last step before submitting my return. It seems like false advertising to be included and listed on the irs.gov site as offering free filing, then charge \$19.95.
1009955	The E-File instructions FAIL to warn that you need to have your "prior year (2003) return on hand". The provider I used last year told me I could file w/o the prior year AGI by filing IRS for 8453. This year I used "Tax simple" and when I got to the END they said I couldn't E-File w/o my 2004 AGI -- no alternative. Its VERY annoying to go through all that work and then reach a dead end!!!
1005935	please advise how to file online for 1040 ez., what is the website. thank you
1006363	What do you do when you opt to use H&R Block's online FREE tax service listed through the IRS.GOV Free Alliance website, and discover when you're "95% complete" in the service that you are now required to pay a 29.95 fee for services you did NOT need or request. Specifically I chose the "no" option for H&R Block's expert summary offer (or whatever it is) as I neared the completion of my online federal return--but the system proceeded to act like I chose "yes" and will not let me finish without choosing a payment option! How come they can do this if they are supposedly a "free service"? Can they do this? How do I complete my return and get out of the site without having to accept this 29.95 charge??

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Reference #	Question
1006907	I HAVE REPEATLY FILLED OUT THE FIND A SERVICE AND ALL I GET IS THE BLANK FORM TO FILL OUT AGAIN WHEN I HIT SUBMITT. WHY?
1006460	I cannot excess H&R Block Website. I have a username and passwork, but a blank page appears when trying to get into the site. Do you now what the problem is? Thank you Patricia
1007341	I was reading that tax software such as turbo tax would be free on the IRS website this year. Where would I access this?
1007884	Why is it that free efile providers that are link to your irs site ie, Taxengine.com, Turbotax.com, h&r Block.com taxact.com etc, etc. charge a fee at the end of the tax process, when it is suppose to be free.
1007932	The quote below is from your website, obtained by using the Search feature. I cannot find a web page anywhere that has a Start Now button or that is called "Free File Home - Your Link...". Can you give me the exact URL please. *** Step by Step Instructions Step 1. How to Get Started: From the "Free File Home – Your link to Free Online Filing" page, click on the "Start Now" button. You will go to an IRS.gov Free
1008218	I would like to know why I was charged \$7.95 to file my federal tax this year w/ Onlinetaxes.com. It was free last year and said it would be free this year if you rec'd the EITC.
1008256	In perusing the list of free tax preparers, a question mark appears on the screen next to the selecting arrow and that question mark seems to prohibt my gaining access to the details of the prospective tax preparation firm. What can I do to view the details of that list?
1008324	I'm trying to find free tax prep software using your web site. I filled out the form and when I clicked on "submit" I was given a blank form and no explanation. I had filled in all the blanks. What do I do?
1008936	Made it through two hours of filing on TurboTax's "Free File" system only to find that they would be charging \$20 to process my return and another \$20 to process my refund. That is totally unacceptable, and the IRS should not be advertising for TurboTax if they are misrepresenting their services.
1009387	I went to the free-file home page, went to the instructions page, was told to click on the "start now" button on the home page. went back to the home page, and there IS NO START NOW BUTTON!!!!!!!!!!!!!! I have checked this over and over, going to the home page from several different places to make sure that it IS the home page. There still IS NO START NOW BUTTON. I'm running out of Tylenol
1009524	I am writing to inform you of my experience using Turbo Tax Free File. I chose to use them because they advertised free electronic filing on your list of servicers. I completed my interview and when I got to the filing segment of the program they had a mandatory \$19.95 fee to file. H&R block however does offer a free efile. I felt this was false advertisement on their part, and I felt very uncomfortable at the thought of leaving all my personal information on their site without actually filing my returns because I refused to pay that fee, when they advertised free filing. I just thought you should know, and I believe they should be removed from your list of providers.
1009689	I believe that you should delist complete tax.com from your provider list. They advertise on your web site that they will allow the taxpayer to efile for free if the amount of gross income is under \$28,000, which mine was (\$6,000) and won't allow you to file unless you give them a credit card for \$32.95. Seems fraudulent to me, and the government should not participate or promote their product. We are going to get paper from the local library so I can file my return. Wasted about two hours on this site.
1009808	I used the irs.gov free file program today. I chose "Guide Me To A Service" and input my information, including my Pennsylvania residency. This is the message I received from you "Great News! Based on the information you provided, you may qualify for the following free services." From the list, I chose the free federal return from TurboTax and spent over an hour filling in the information for my federal return. When I was done I chose

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	the option of filing my Federal return only, but was still prompted to enter my credit card information for a \$19.95 fee included in the PA state tax return program, even though I had not chosen that feature. I want to know why I was directed to TurboTax for a free tax return by the irs.gov website after I entered that I lived in PA, when as a resident of PA TurboTax charges a fee.
1009830	SEARCHING FOR THE FREE TURBOTAX VERSION, CAN NOT FIND IT ON YOUR WEBSITE
1010071	To Whom it May Concern, I wanted to let you know that my computer got a virus after using TurboTax via your website. Now something "free" has already cost us \$150 to fix. Something fishy is going on with that website and someone needs to investigate it. There is a lot of personal information submitted to that website. You are telling people to use these services, but have you investigated them to see that they are legit? I used TurboTax last year and had no problems, but this year is another story. I am confident that I got the virus on that website. Please look into this so that no one else has to go through the trouble I have. Thank you for your interest, unforward@yahoo.com
1007872	Hi, The IRS Web site free file area lists the following provider. H&R Block: Free federal online tax preparation and e-filing for all taxpayers. No restrictions. Everyone qualifies. More details Yet, after completing my return Block wanted \$29.95 and their Help Desk told me the only restriction is your AGI must be less than \$34,000. To me, that is not what "No restrictions. Everyone qualifies" means. Would you please see that the free file information is correct as I do not appreciate such surprises after spending an hour to input data. Thanks, Bill
1010191	After spending over three hours and after having completed the Federal tax portion, there is a message that I need to pay for "tax preparation" services amounting to \$19.99. What happened to free filing? As this is based on a government program / agreement, I would have thought you would not permit marketing deceit. Maybe I just do not understand what is mean by "free filing." Signed, Somewhat confused & annoyed over seemingly wasted & precious time (aka Rob). Any help you can provide to explain this or to sanitize the wording on this would be most appreciated. If feel I was just robbed of three hours I could have spent with my family and that the IRS set me up to trust, in this case, TurboTax... Wishing you peace, Rob
1010488	Yesterday, February 5, 2005 I tried to file my Federal and State Income Tax. I was using Turbo Tax, which is owned and operated by Intuit. When I had just about finished, the announced that I would have to pay them \$19.95 before I could finish filing the State Tax. I didn't like the way that sounded and went back to withdraw from filing state tax and to send my Federal Return to you. They apparently take offense at the nerve of someone that opts not to pay them and then make it impossible to determine whether or not their tax return has been forwarded to IRS. Now, I don't know whether or not you have received my return and therefore, do not know if I should file it again by some other means. Can you help me. My name is George . Since this appears to be a non secured message, I am not sending soc. sec. numbers of myself and my wife. Really all I need to know is if you have received my return for 2004. Thanks for any help you can offer. George Tmk9r@aol.com
1011013	I went through the irs site to chose a company to free file my federal taxes which I do every year. I chose hrblock site and just as I was finishing up the "FREE PREPARATION AND FILE" SITE I was asked for my credit card information. I submited such information thinking is was precautionary on their part to ask for such in case I requested additional services that are not free. BUT , TO MY SURPRISE I WAS CHARGED \$29.95 FOR PREPARING MY FEDERAL RETURN EVEN THOUGH I NEVER SUBMITTED IT FOR EFILE OR ANY THING ELSE. I HAVE REQUESTED AN ANSWER TO WHY I WAS CHARGED FOR A FREE TAX PREPARATION SERVICE AND HAVE NOT RECIEVED A RESPONSE. I HAVE ALSO DEMANDED A FULL REFUND AS I HAD TO RE PREPARE AND FILE MY TAXES THROUGH ANOTHER SERVICE WHICH ACTUALLY WAS FREE.

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Reference #	Question
	THEIR HOME PAGE IS VERY DECEPTIVE. PLEASE HELP BARBARA Bush
1011101	Last Sunday I entered the IRS web site to obtain a link to a free e-file site. I choose Turbotax after confirming that I was qualified for free filing based on the "rules" provided on the IRS site. I spent 40 minutes entering all the data and choose the option for filing my Federal taxes only (not my State taxes). When I got to the end the Turbo Tax web site asked me if I wanted to deduct the \$19.95 charge from my refund or pay for it via a credit card. I tried every way possible to get past this screen assuming it was a mistake but there was no way around it. My only choices were to pay or find another e-file company that was really giving "free" e-file service. I sent an e-mail to the Turbo Tax help line and got an automatic reponse back saying someone would get back to me in 48 hours, that was 7 days ago. I sent a follow up note later in the week. To-date I have not gotten any answers from Turbo Tax. I see this as a serious case of fraud in which they are using a government web-site link as a way of stealing from tax payers. How many people have paid the \$19.95 thinking they didn't have a choice?
1011328	I used the free efile and completed my tax return for 2004, however I tried to print a copy of it and I did not get one. I cannot find how to access the online tax return I filed and print a copy for myself. Please help.
1011655	I think that the web site should properly verify which "free" online tax return services are actually free. As a first time claimee, I spent over an hour trying to enter my information only to be told that of the \$200 dollars that I would recieve over \$18 of it was for the electronic filing service. This is a great deduction for someone with a small income like myself. If you could specify this fee for further return services that would be greatly appreciated. Thank you.
1011656	Hi I went through your website to Turbo Tax to file electronically for free. However, I got to the end and the want to charge 19.95 to file and another 19.95 to direct deposit. Please let me know if I'm mis-reading their quote as free e-file. I'm not concerned about direct deposit, I'll just receive a hard copy check
1011532	Please give specific ysteps on .our website to obtain TurboTax and TaxCut,etc. for downloading. The nearest I came was a referral to "IRS Procurement website"; going there did not yield TurboTax, etc. Thanking you for your prompt reply, Sincerely, Dr. Edwin .
1012469	Does the IRS offer free tax calculation software for 2004? If so, where can I find it on your website?
1013101	How do I find the Turbo Tax Basic that you say is available from this start page?
1013366	Your statement that Turbo-tax will file my Federal return for free is INCORRECT!!! They insist I have to pay \$19.95 to file a State return before they will file my 1040 for free. Please update your we-site.
1013552	This is to file a complain against Turbo Tax. I was told that I can use free Turbo tax in Web, so I entered all my interview info, and entered all the necessary data for tax return preparation, including schedule E, but when I need to access the depreciation form is where I got stuck. Why can't Turbo Tax warn its user not to go through any data entry if the user has more complex return to prepare. I asked them about my problem and here is their answer: TurboTax for the web does not support forms. You can reach TurboTax Sales and Service at 1-800-440-3279. Why can't they say right up front, instead of making people go through all the work and get stuck? Please inform Turbo Tax about this complain.
1013726	I went through your site to do my taxes... I used the link to H&R Block. The federal portion was supposed to be a free service. I also did my state taxes here knowing that I would pay for the state portion. I was charged for both. Because I have only lived in VT Since may I had to have a tax professional do that portion. I was able to do the federal and California portions on line. I paid for both federal and California. Then today I received a message from the professional doing the VT portion stating that he did all of my taxes and I needed to pay \$89 more to him.... this is a rip off! I expected to ha

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Reference #	Question
1013905	I have filed my taxes with HRBlock online filing system and I was charged a fee. I thought it was free. My gross income was a little over 12,000. Please help.
1014218	I'm trying to complete filing my federal tax return with Esmart Tax' website and they are charging me the \$9.95 filing fee even after going through the IRS website. Can you tell me what I need to do to eliminate the fee? Is it because this is my second year of using the same Esmart Tax software through the IRS website? I didn't have any problems last year filing for free..Please advise. Thanks.
1014297	Gentlemen: On a newsradio station I heard that you can get a free copy of the current Turbo Tax software to do tax year 2004 taxes? How do I obtain that? Edy
1014771	Did the IRS remove FreeTaxUSA from the list of companies who provide free federal tax filing? I thought I found their website (www.freetaxusa.com) through the IRS website on Sunday, but now I can't find a link to that company's website. Thank you Adam Do you Yahoo!? Yahoo! Mail - You care about security. So do we.
1014774	DEra Sir/Madam; RE: INtuit/Turbotax FREE. Please post the following or similar warning. DO NOT SIGN ON or SET UP AN Identity from any page But the one linked to this site.. Free state must be found there is a hidden link and then u must establish your identity from that page in order to qualify for both state and federal. TY Larry
1015088	I have filled out the "Free" H&R Block tax return, but when I got to the last page it is charging me \$29.95 for my Federal return and \$19.95 for my State return if I submit the form. I knew there would be a charge for State, but there should be no charge for Federal. I spent two hours working on this and now I can't submit it AND they don't have a phone number or an email address to resolve this problem. In my view, this is a major problem if they are allowed to continue in this manner.
1015467	I faxed over my signature form and got my User ID which is epiro my email is jpirob@aol.com I would like to file my 1040A Tax tonight by your system will not let me log in PLEASE HELP Thank You, Eleonora
992683	I just spent 6 hours doing my efile on H & R block site thru the IRS site. the sujestion was to take 30 mins. the free filing was in no way free. i spent over 2 hours being redirected to there choose to pay windows when I finally got to the filing part that took two hours. i keep getting redirected to pay for a state efile and told my state won't allow me to efile if I don't do it know and pay them. when you say no the program stall and then you get time out notices to be shut down. I had to redue the filling part three times to get the efile done without paying. I fell the IRS has done it again. Please let me know will this be your approved product with all program providers?
1015197	How can the e-filing tax services advertising on your web site claim to be free? When you get to the end, they charge you. How is this free????? This is false advertising and it is against the law. Not only do the services charge, but the banks who cut the check charge as well. Why should we be penalized by e-filing which should make the government more efficient?
992986	Good morning. I am working on a Unemployment Insurance systems modernization project for the State of Wisconsin that is developing an online registration process for it's employers. We noticed that the State of Georgia has the ability to get a FEIN assigned directly from their registration portal. We plan to pursue the same capability for our Wisconsin registration portal. Do you have a design specification for the system interface used to allow a state's registration portal to send data to (and get back a FEIN from) the IRS site? If there is a more formal channel to follow for getting this design documentation, please let me know whom I need to contact. Thank you, -Jim
993152	I thought I read in a newspaper recently, and heard on my local TV news, that the IRS was partnering with a company that, this year, would provide free on-line tax preparation software and free efile for most all individual filers. All free. I thought it was the TaxCut software company. Did I hear right? CEJ
993076	I am trying to take advantage of one of the free federal e-filing offers that are listed on your website. I thought under the warnings I read that I needed to contact the free efilng

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Reference #	Question
	company with a link through your website. I chose 'help me find a free e-filing company' from your home page, filled in the questionnaire, chose submit and then got a message that I was leaving the IRS page - is this correct? Please respond asap,
994204	I feel H&R Block is using deceptive practices to lure people into buying their "fee" services. At no point do they tell you that you must create a new account and can not log in as a returning customer in order to access their free file services. In fact I recieved several emails from them indicating that because I was a returning customer it would be so much easier for me to file my taxes for free. I think there should be some clarification to their service on your webpage as well as theirs. It wasn't until I finished entering everything and got ready to e-file that they dinged me with a \$29.95 fee. Of course I didn't pay it and redid my entire tax form using another free file service. At the very least, customers should be made aware of their policies beforehand. Thank you. Jennifer
994402	I had done my federal taxes one day & there was no fee, returned & did my stste taxes the next day via the state website which also said it was free for certain incomes but after I was done I was told I was over the income level so I deleted my state income tax from the file but the fee for a federal return still remains. I am unable to get rid of it, I wam using Turbotax which said there are no exceptions to the free filing. Please help me figure this out Thanks, Les
995339	I e-filed my federal tax yesterday January 31, 2005 to Free tax USA, as I a looking now for the result of the e-file I cant find now their website in the E-file services. May I know any information about it. What happened to the website .
995612	Re: Free E-File Companies Just wanted to let you know that this is the second year in a row I tried to use TurboTax to e-file for free (I met their requirements). At the very end, after having completed my return, they make you pay otherwise they won't file it. Rather unethical, since I accessed their site through the IRS site, and it says it's free throughout. Just wanted to let you know... Emily
995411	I have filed e-filed the last couple of years. Tried H&R , Tax Act , and a couple of others on your list. They are giving me the run around getting on line , then when you do are rejecting every thing. I'm retired and have farm rental income and file 3 1099R , My spouses W2, and about \$100 interest. Who can I free e-file with , with all this run around, or should I just mail it in?
995719	Your website sucks!!!! I have never seen anything so poorly put together & completely user unfriendly...how the hell do I go in & file my taxes online. According to all your expensive advertising it's suppose to be fast & easy bullshitt! I have been all over this damn website for 45 mins trying to go in & file my return but all I get is information & example questions to look at. Where do you sign in to start???? Y9ou need to hire a decent computer programmer who can make this much more simplified & user friendly. I will never do this again.
1005861	how to you find the people you files with last year?
999370	I can't seem to get past the first screen for free filing. I have enabled cookies. Is there something else I need to do? Thank you.
993362	Someone told us that they got Turbo Tax free on irs.gov but I can't locate it. Can you help me with this. Thanks
993876	The free file link on the IRS.gov website to H&R Block directs me to an error page. Is H&R Block not offering free file any more ?
997761	I began to file my taxes with you and my 3 year old exited me out is my info saved or do i need to start all over i had finished everything even gave my checking info and was started on state taxes ???
995350	Below is the jist of my 3 hour chat with HRB. Bottom line , Im very dissatisfied, as it should not take 3 hours to get an answer for this simply question. And the kicker I pay \$40.00 and there appear to be no Business us of home forms available for the not so PREMIUM pkg. A copy will be sent to the IRS Regards, Jose Welcome to H&R Block. Please wait while we find an agent to assist you... You have been connected to Serena Holdren. Serena

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Reference #	Question
	<p>Holdren: Hello jose, welcome to H & R Block's Live Technical Support Chat! How can we assist you today? jose cannon: i started my return by using irs .gov, and the premium fee was notd as 19.95 jose cannon: im now showing an amount dueof 39.95 due, and the home office expense form is not available??/ Serena Holdren: Did you file your state and your federal? jose cannon: Ive filed nothing yet, but did say no the sate option jose cannon: I ahve a few questions pending prior to filing Serena Holdren: When you went into the IRS website did you create a new account? jose cannon: i did ...yes..... jose cannon: i wnat to paythe corect amount.....but dont waht to file yet Serena Holdren: Where did you find that the site said 19.95? jose cannon: if i go back to the irs.gov sign inand go throuhg the clicks , it states 50% off for free file alliance filers.....or 19.95 rather than 39.95 jose cannon: that is for the premium program Serena Holdren: T he free file is for the standard. jose cannon: correct, but there are 3 options jose cannon: free, young adult 14.95.....premium 19.95 Serena Holdren: Did you import any information? jose cannon: none jose cannon: my prior year info was a differnt computer jose cannon: with the offline sftwre Serena Holdren: May I please place you on hold while I research some information? Serena Holdren has left the session. Your agent is experiencing technical difficulties. Please stand by while we re-establish contact or find a new agent... All agents are currently busy. Please stand by. Please wait while we find an agent from the OTP Tier 1 department to assist you. You have been connected to Vernon Tubbs. Vernon Tubbs has left the session. Please wait while we find an agent from the OTP Tier 1 department to assist you. You have been connected to Brian McCall. Brian McCall has left the session. Please wait while we find an agent from the OTP Tier 1 department to assist you. You have been connected to Janeka Hector. Janeka Hector: Hello jose, welcome to H & R Block's Live Technical Support Chat! How can we assist you today? jose cannon: ?????????? jose cannon: Serena Holdren: Hello jose, welcome to H & R Block's Live Technical Support Chat! How can we assist you today? jose cannon: i started my return by using irs .gov, and the premium fee was notd as 19.95 jose cannon: im now showing an amount dueof 39.95 due, and the home office expense form is not available??/ Serena Holdren: Did you file your state and your federal? jose cannon: Ive filed nothing yet, but did say no the sate option jose c Janeka Hector: May I please place you on hold while I research some information? jose cannon: Serena Holdren: Did you file your state and your federal? jose cannon: Ive filed nothing yet, but did say no the sate option jose cannon: I ahve a few questions pending prior to filing Serena Holdren: When you went into the IRS website did you create a new account? jose cannon: i did ...yes..... jose cannon: i wnat to paythe corect amount.....but dont waht to file yet Serena Holdren: Where did you find that the site s jose cannon: is anyone helping to answer my questions? Janeka Hector: May I please place you on hold while I research some information? jose cannon: thats fine jose cannon: because of the variance in fee ...19.95 vs 39.95 im going to contact the IRS and the BBB, as im getting no answer jose cannon: i will procedd with payment, however print of the section in question, and protest payment with CC provider Janeka Hector: I will be happy to assist you with this matter, however I will need to know more about the discount so that I may locate it. jose cannon: following the free links in place clearly state a 19.95 fe for the premium service jose cannon: www.irs.gov.....is a great plce to begin Janeka Hector: I am going to log in to the IRS site now, can you hold while I do this? jose cannon: ok Janeka Hector: Thank you give me just a moment to get there please. Janeka Hector: Thank you for your patience, I am still logging in. Janeka Hector: Thank you for holding. Janeka Hector: I am on the IRS site, can you tell me what you went to? jose cannon: I am following the links through irs.gov , being told one price for the premium svce(19.95) and being charged 39.95.....please advise Thanks Joe Cannon 614-786-1034 Janeka Hector: Thank you for holding. jose cannon: i ent to free file jose cannon: then to your program Janeka Hector: Can you tell me what you clicked on to begin jose cannon: and then clikced on the link for your premium service 19.95 jose</p>

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Reference #	Question
	<p>cannon: free file is the first click jose cannon: free file that is jose cannon: then start now jose cannon: then to HRB jose cannon: then to leve irs site jose cannon: and then premium.....start now jose cannon: 5 clicks Janeka Hector: Thank you I am able to see the information that you are referring to. Janeka Hector: Did you import any information? jose cannon: none jose cannon: i typed my way to fatigue Janeka Hector: I apologize for the inconvenience, give me just a moment so that we can resolve this. Janeka Hector: Mr. Cannon, we greatly appreciate your patience. We're are still working on solution to this issue. Please continue to hold. We will be with you shortly. jose cannon: k Janeka Hector: Mr. Cannon, we are still researching the problem. I understand that this is a frustrating process, but I ask that you please bare with us while we are getting the answer. Thank you for your patience. Janeka Hector: Mr. Cannon, thank you so very much for holding. We are still working on a solution to this problem. We can't thank you enough for you patience. Please stay on hold, we will have an answer for you soon. jose cannon: still working on it? Janeka Hector: Yes, sir, we are still at work on your issue. I deeply apologize for the long wait. Please continue to hold for a while longer. We are working to solve this as soon as possible. Janeka Hector: Thank you for holding. Janeka Hector: Mr. Cannon I am going to issue you a keycode. Janeka Hector: The Keycode is key code is: AC9GBE754B. jose cannon: and this is forwhat??? Janeka Hector: This is to override the charges that the program is giving you. Janeka Hector: You go into the file menu at the top of the page to punch in the keycode. Janeka Hector: You will have to click next until you see the advice and help section. Janeka Hector: This will be on the right of the screen that says where do I enter my keycode. Janeka Hector: Are you still there, Mr. Cannon? jose cannon: yes working thorough to the key code Janeka Hector: Are you having any trouble? jose cannon: got it, am on pay screen now Janeka Hector: Great! jose cannon: it only took 3 hous and 3 experts to get an answer Janeka Hector: Is there anything else we can assist you with today? jose cannon: e are good for now, I will forwrd all of this in an email on to HR and the IRS, thanks for your help today</p>
997069	I have done my tax return and somehow created a file that they want 29.95 for filing. I want to file free file to the federal gov. My user ID is hak9827
995013	year before last i filed eletronicly through the irs using my routing # & acc# and it didn't cost me anything why not now. donna
995110	Just wanted to let you know, that of the sites you list for online tax preparation, I used two of them. TaxSlayer showed a refund of 350 for federal and 398 due to the state of Kansas. TurboTax showed a 1,998 refund for federal and 500 due to Kansas. I double checked both for errors on my end. Just wanted to let you know about the discrepencies in the online services promoted by your site. SFC Dave US Army
992993	Hello - I'm contacting you because I followed your link to FREE tax prep and e-filing via TurboTax. I am disappointed to find that now that I have followed this link (and bookmarked the page as issued by TurboTax) and gone through the effort of working with their program, I am to be charged \$20.00 for my e-filing. How is that?!?! Your website says that it's FREE. I have emailed TurboTax, and as of yet have gotten no response. I would like to know why the "bait-and-switch techniques".
997448	Hey. I went to your website and clicked on free file and went through to pick TurboTax for the web. It's statement says it is free for everyone, no restrictions. But, when I get to the end to actually file, it tells me I don't qualify. Can you help me here? Thanks, Kim

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Reference #	Question
1020513	I was referenced to "turbo tax" for free federal tax return service thru IRS.GOV. I attempted to use this service several times and it would not allow me to complete the filing unless I paid them 19.95. Thank You.
1025842	Once again I have attempted to electronically file by using the IRS path to free tax filing on your site. It let me to TaxAct.com which I used to prepare the return. At the end of the process, it tells me that it is NOT free to electronically file, only free to prepare a paper return. So once again, you will receive a paper return and I am sure many other taxpayers will be following the same path. I wanted to notify you of this as I am sure your goal is to have as many electronic filings as possible. Someone needs to review the list of "FREE" electronic filers as you are not going to the desired results when they do not turn out to be free at the end.
1024479	I used the IRS web site on Jan. 30 to file my taxes because I believed the IRS was encouraging E-file. I make way less than the minimum for free e-file. I clicked on the free e-file site that covered the upper portion of the right side of the page. I never saw a company's name. When I received my refund I was charged \$119.95 by the company (taxesbyexperts) and the bank they used charged \$28. I have contacted taxesbyexperts by phone and they have no record of my informaton. Someone from their company is supposed to call me tonight (2-14). Since I obtained this from the IRS web site I feel this is totally misleading. It indicated the filing was free. I have done my own taxes for years and only did it by e-file because I thought this was the right thing to do. I don;t know how or why your web site changed, but now your web site supplies a list of companies to choose from and taxesbyexperts is no where on the list. This is extremely frustrating. This advertisement was very misleading and close to fraud. A very expensive lesson!
1024570	I did access through irs.gov andmthey still want to charge 29.95 versus your claim of free.
1024576	I need help finding the status of my tax return I got a confirmation at my email but I don't know where to go exactly to check the status of my file. I have all my information such as user id and secret question but I need someone to give me the address that I need to go to... please answer me. I filed on line last Friday February 4, 2005
1025218	What we need is an absolutely FREE, accessible and secure site direct to the IRS to file federal tax returns. The supposedly "free" sites listed on your current web site are not "free" and absolutely not secure. Surely, if we can orbit the planet, we can set up a site tied directly to the IRS to file tax returns without the current hassle of going through one of the for profit "free" sites or having to purchase expensive software that is outdated as soon as you walk out of the store. In short folks, your current web site is pretty much what we have come to expect out of you.....a bunch of bull shit about nothing. Let's fix it. By the way, I don't care to tell you my name, my address. My name is Carter. I am a loyal taxpaying citizen who expects better out of his investment. Please advise if the above fix is feasible. I do believe it is. Thank you for your time.
1029469	I sent a question to fretaxusa.com on Sunday and again today---no reply. Shouldn't they be answering questions if they are on your alliance as a reliable site? ME Courage---Do not go where the path may lead---go instead, where there is no path, and leave a trail. Emerson
1029566	I have attempted to use the free file for Turbo Tax and after entering my user ID and password, I get to the page that states "creating a secure connection" and it never progresses. I then tried to use the H & R site and the same thing happened. It just stops on that page even though it states "done" in the left hand corner. I used Turbo Tax through IRS.gov last year with no problem. Can you advise what I can do to get connected to it?Thank you.
1029741	I would like to report that I'm having some technical issues on the h&r block web site. I'm trying to pay for a program but the page willn't come up. if you could respond a.s.a.p. that would be great.
1029813	Dear IRS- one of the "next" buttons on a window on the H & R Block Free File program does not work. One just gets stuck there after doing a lot of work.

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Reference #	Question
1029822	I prepared my taxes with a store (purchased) version of Turbo Tax. Can I now e-file free through this program? Where do I go to do that? Comment: This is a great service. I had already purchased my Turbo Tax when I learned of this program. I explored using TurboTax free from your program but there still seems to be a few problems for me. I couldn't import last years tax data and everytime I quit the program in the middle of the return, I lost all previously entered infomation. Thanks for trying. Maybe next year I can use this. Steve
1031250	Please investigate your link with TAXNET.COM. They advertise a free filing service and then there are numerous problems with their website and it charges you \$9.95 to file elcetriconally, and will not let you change or get out of the site until you enter your credit card number. My daughters total earnings were only \$7,000 and she has a child and they charged her the \$9.95 and it is not even deposited directly as she had wanted. This site is horrible and I have used a lot of the sites. Please remove them immediately from your links, Their response to my complaints were a simple email saying "Sorry you had problems." Really great customer service!!! Suzanne
1031187	Can you save your tax return file not complete using 'freefile' and return to finish it at a later time?
1029783	Question How can I file my tax return by E-mail? I already have the return figured out by my CPA.I need to know if their is a form I can put it on to expedite my return?
1030108	How do I apply for Turbotax? I want to download it.
1029873	I purchased Turbotax and completed my return, but when I go to file, it cost 14.99 to file and then 19.99 to go through this bank in Santa Barbra and they want you to sign an agreement that gives them the right to share your info with other and create an account with them. I just want to send my return to you electronically. It is completed. Is there a way I can send it via e-mail and the IRS can open or access it in the turbotax format?
1026660	Why is Turbo Tax still charging to file on line when it is suppose to be free????????????????
1030040	To Whom This May Concern, I am new to this e-filing of tax returns. I am uncertain of which companies are free and directly related to the IRS. I wish to file my income taxes online with electronic deposit into my bank account. I also want to figure my State taxes online. It seems there are many options. Can you make this easy for me? Thank You, Beth
1026607	Last Year I filed through the free file, on-line. How do I retrieve my information from last year? My name is tina .Nothing changes from last year, at least my personal infomation that is. Is there any way I can access that info? please either email me at s.dahl410@aol.com or sent me info through the mail. thank you, Tina
1029165	This is to inform you that there is misinformation posted on your > website regarding e-filing from H & R Block TaxCut. The entry reads > "...e-filing for all taxpayers. No restrictions." I have found that > TaxCut specifically excludes residents of Puerto Rico and the United > States Virgin Islands from e-filing even though they are continuing to > sell their software here and promoting the (unavailable) e-filing. I am a > resident and native born U.S. citizen of St. Thomas, U.S.V.I. and tried to > e-file with both my purchased TaxCut Deluxe and the Free File version on > the IRS website and was unable to file because we are listed as a "foreign > address"! TaxCut technical support has confirmed that they do not allow > e-filing from the U.S. Virgin Islands or P.R. > Why are they allowed to post the above quoted misinformation on the > IRS website? > Sincerely, > Looking for alternatives in the U.S.V.I.
1029297	Not sure if this question applies? However, are you aware of any server problems at CompleteTax.com? I have not been able to connect for over 2 days.
1031453	I used H&R Block through the IRS web-site. Both this site and H&R's promised free e-file. I also used H&R last year. The H&R Block website figured my taxes then said I owed \$20.00 if I wanted to e-file. I e-mailed H&R Block and they said I would have to use a different website from the one the IRS directed me to and start over. Thanks

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Reference #	Question
1030200	I would like to make some comments on your free e-file option. I have been using e-file since 1999 using purchased software. This year I decided to use your web site for free e-file. I first tried the vendor whose program I purchased last year, but found that their price for submitting the state portion was higher than if I bought their program I also know two people who went through your web site for what was suppose to be a free program and when it came time to file, the vendor wanted almost \$40. If they are advertised on your web site as free, then they should be and with no steps to try and confuse the consumer. If you really want people to file their returns electronically, you should make it both free and easy. Feel free to contact me if any of my comments were not clear.
1030894	Your site says it's easy to e-file in numerous places, but I have yet to find a link to an e-file company. The one that I used last year (TaxACT online) has sent me an e-mail offering their services, but after numerous attempts to log onto their site, it appears not to be working. If it's really that easy, why am I so frustrated???
1030912	Just for your information, I submitted my personal information to > > free.numbertax.com thru your information process. Once I entered the > > personal information, I have not been able to access their website. I > > hope that information will not be used fraudently against my husband and > > me. > > Thank you.
1030614	Do you know what software program offers 1040NR form?
1030690	Dear Sir: I am having problems with this website as I cannot get started on any of the recommended websites for the free income tax return service. Why is this? I clicked on some and it just gives me some information. But at the bottom it says to return to main page. The main page just has a summary of my personal info which I submitted at the beginning. But where does it say "Get Started?" If I click on the company's name I receive a notice that says I am leaving the IRS site and will be charged for filing my return with that company. So, I click the cursor to return to previous page. But there are no starting instructions on how to begin to prepare my income tax return. Why??? What am I doing wrong. HELP!
1032088	We filed a 1040EZ and wanted to do it electronically. We were directed to a list of private companies to choose from and were told before leaving the IRS site that there would be no charge for filing the 1040EZ electronically, but there might be a charge for the state form. after going through the whole long exercise on TurboTax we were informed there would be a fee for the federal return. With that much time invested we decided to go ahead, but would like to have known about the charge ahead of time. Thank you.
1028752	This so called free filing should be simplified. Last year I ended up paying and again this year. Taxslayer says that if you are 61 both state and federal are free, I qualify. If there is a way of getting that free offer I do not see how. They route you through the whole process and all the time you think they know my age it's on the return, how simple, the software will pick it up. At the end they want payment via a credit card. I think the IRS should demand simplification on the filer's part. I talked to a representative on the phone he said he would "walk me through the process" but I would have to enter the entire return all over again! Thanks, Jim.
1028956	Dear IRS: I heard over public radio that the popular Turbo-Tax program was available free through the IRS. (This is a computer program now available a various electronic stores nationwide.) Can you tell me how this is done from one's home computer? Thank you, Marilyn mousetraptoo@accessbee.com;
1029025	I tried to use turbotax to file electronically, just my federal return, but it wouldn't finish until it got credit card info to charge me for the state return.
1037417	THE IRS encourages people to file electronically by using one of the free file providers. I selected TURBOTAX and went to their free file website but at the end of filing my return, they asked me to send them a check for \$29.95. Why is that? Marc
1037199	When I pull up free e-file it is not readable. How can I file my taxes on this free link? Patricia
1038695	As of Thursday morning of Feb 17th, the link from Free File to H&R Block is not working.

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Reference #	Question
1034275	I've linked to TurboTax on the Web through your web site and for two years in a row I've had to write to the company to correct errors they would not correct online. I don't know who, if anyone, monitors the companies IRS recommends for e-file but from the looks of the message boards companies like TurboTax and H & Block have hundres of complaints. Couldn't find another place to express the problems associated with e-file companies recommended by IRS.
1034329	I used the IRS site and went to Turbotax for filing. I completed the entire form and before e-filing it asked for credit card number to charge me. I can't get thru to Turbo. Can you help?
1034599	On your web site when I click on Tax Act '04 listed as a free software to do my Federal Income Tax, a page comes up that says the IRS has nothing to do with this, yet it's listed as an approved free sire. What gives? Is it free, safe and approved for use by you guys or what??
1034322	Not sure if this question applies? However, are you aware of any server problems at CompleteTax.com? I have not been able to connect for over 2 days. TIA....Gary
1034235	Your free tax file sites are a joke most of them will not support a schedule F and if they do they say they are free if under a certain AGI so I spend 3 hours completing all the info and i come up with a negative AGI which I knew it would be and they still want \$33 (Complete Tax) is the name of that company. What kind of junk are you offering here may be you should check these companys out before letting them post on your web site when they say everybody qualifies obviously not!!!!!!!!!
1034241	I used the TURBO TAX free file option. As a resident of Wisconsin I could efile from their website, but TURBO TAX strongly infered that was not possible. Turbo TAX led me through a stae tax return then demanded payment for a stae return even though I said I wanted to file Federal only. After searching their help I found I had to delete my state forms before it would let me free file Federal. I think TURB TAX are being devious and misleading.
1022144	I am sooo upset...I went on your website to file on free filing...of course I do not remember were I went to but I thought I was doing an IRS free filing. I filled out all the info and when I got to the end it said I owed \$19.95 which was ok even though it said free I went back to see what I did incorrectly and it said time ran out and everything was lost!!!! What happen to all my info. I did everything it told me to put in and also gave me an amount of what I would be getting back. Now I do not know were it went and how do I get it back. I have pass codes which I wrote down PLEASE HELP ME.... Linda
1040123	Dear Irs: I used the tax freedom program to figure my taxes. I never completed them. or Efiled them. They now want to charge me 24.99. First, I thought it was free for those person making under 32000 and secondly I did not even complete my taxes with them. Can you help? Thank you...I found out about them on the irs.gov website. so that is why I am asking. :) thank you. "Let there be peace on earth and let it begin with me...."
1039872	Hello, I prepared my taxes going thru the Irs site to the Taxslayer site. Although I did qualify for the free file since I qualify for the Earned income credit, I was charged the standard 9.95 fee. I have tried to contact them several times, but I cannot get any reply. I only have an email address for support...I have tried to find a phone number, to no avail. I was hoping for some assistance with this...Thank you so much. A
1035129	You have, for several years now, sent me data on my filing electronically. Wonderful. I normally use Turbo Tax program to do my Federal and State taxes. You say e-filing is free. Wonderful, but when i try to file through Turbo tqax they indicate a \$14 dollar charge for each tax form, i.e. Federal and state. If that is FREE wwil I don't understand the English language. Sorry, I'll file, as before, by mail. Domingo , Jr.
1035541	WHY DON'T YOU SET UP YOUR WEB SITE, LIKE THE STATES DO? WHERE YOU FILE DIRECTLY TO THE IRS AND NOT THROUGH AN OUTSIDE WEB SITE? THANK YOU
1032360	I was qualified for free filing thru this site after wasting alot of time on TurboTax they

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Reference #	Question
	wanted to charge me \$40 for filing. It would have been very helpful to find this out first! I,m sending my return in the mail
1032456	Dear IRS, Last year I e-filed and it was relatively painless. This year it has been an entirely different story and I am using the exact same hardware and software as last year. 1. I tried to use Turbo Tax because I used it last year. It doesn't like the browser that I used last year and I am not going to download Netscape. 2. I then tried H&R Block and that didn't work, I don't remember why. 3. I tried esmarttax and I couldn't correct my ss number I had entered incorrectly. 4. I tried three more. With two of them I got a warning message about not having a secure connection. The third one told me it couldn't find the web site. I have now been using this process for over an hour and I am wasting my time. I think I will have to file a paper return. Maybe it will be better next year. Regards, Mike
1032163	I have been trying to use the H&R Block free E=file system, but they keep sending me to their Standard System, and charge me \$29.95. How can I get on their free system?
1040991	Help, I tried the efile(Free turbotax filing), but the turbotax package didn't seem to be following the pub 8283 guidelines, so I stopped. I just received an email from Turbo tax saying that the fee was going up from 19.95 to 24.95. What part of free file did I miss? I only did this because the IRS site said that turbotax efile was free. What is going on. Charles
1041324	If you want people to use the e-file, which would be best for all concerned, you should make it easier and more transparent as to who can use it for free.
1041366	After selecting what I considered to be one of your "free" services - TurboTax - was Emailed a note saying that the \$19.95 fee would go up after 2/22/05, and that is what I would be charged. This was after going through the service without clear notice of the cost. I just completed another browse using the various tools available to find another "true free" service without success; even the Guide Me steps show that I would qualify and to select from one of the services below. None were truly "free." Is this some kind of bundled deceptive advertising? Seems that it is. Please advise. Thank You !! Jose'
1041528	I am having a hard time finding the right site to file my taxes free. Is there a special address that you would/could give me to save my sanity. I thank you in advance
1040782	of the free tax programs available through the IRS website. (Federal and state) which one of the state returns for Oregon for part-year resident, include filing for.
1040860	I used your Web site to choose a provider that files electronically FREE. My form was rejected by the IRS so I sent it by mail instead of the hassle of trying to figure out what was wrong. I thought the information was correct. I printed out TurboTax's page that said my filing was FREE since I fell under the income guidelines and I filled out a 1040EZ. Now I get an e-mail saying I owe \$24.95, which is set to be increased on Feb 22 if I have not paid by then. Explain what exactly is considered free; last year I did not pay to use your site. Thank you.
1040943	of the free tax programs available through the IRS website. (Federal and state) which one of the state returns for Oregon for part-year resident, include filing for
1040317	I would like to know where the FREE e-file is... They ALL charge something...
1041009	Through the IRS Free File I was cut off completely. In questioning this action I was told that all the information was saved each time I hit the 'next' ox. I did not know how to return so I completed my return by hand and mailed it in. I now need to erase all information from the computer connection to H&R Block and the Free File. How can this be done? Just disconnect all.
1040209	I hope I have the correct contact email address. My problem: I filed through IRS as instructed, then elected Trubo Tax as my file agent... I filed electronically but had one piece of incorrect information, so the return was not accepted. I then elected the option of mailing in my return, so, as was prompted by Turbo Tax, that I could do so... I downloaded the forms/info and I mailed in my tax return the next day! I just received an email from Turbo Tax telling me that I will be charged 24.95 for filing my taxes through their services if I do not refile before 2/22/05. This is a free service if you enter through IRS...so my

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Reference #	Question
	question - what is going on? I sent an email to them...but am not confident that it will be cleared up. Help please! Strange they don't have information about their own program! If you need more specific information, please contact me. dc dotcalaug@aol.com
1039783	At the end of the process, it tells me that it is NOT free to electronically file, only free to prepare a paper return. So once again, you will receive a paper return and I am sure many other taxpayers will be following the same path. I wanted to notify you of this as I am sure your goal is to have as many electronic filings as possible. Someone needs to review the list of "FREE" electronic filers as you are not going to the desired results when they do not turn out to be free at the end.
1043263	Gentlemen: I have a complaint about the H&R Block e-mail service offered in conjunction with this site. Their own description states "Free federal online tax preparation & e-filing for all taxpayers. No restrictions. Everyone qualifies". Based on this promise, I proceeded to their site and entered the most personal details of my financial life. Their final screen before filing offered a series of options with prices ranging up from \$19.95, but none free! I complained to the company, and received an unresponsive reply thanking me for my input. I repeated going through the instructions on your site and the transfer to their site, assuring that I entered through their "free" portal with the same results. I am a retired person of relatively limited means and fairly simple tax form requirements. Not only was I misled by this company, but they took my private identification and financial information under false pretenses. Please remove this company from association with your site and warn people who have submitted or may submit returns with them of their possible misrepresentation. Also please inform me of what actions are taken. Thank-you.
1043234	If I start using one of the fee e-filing tax programs that I qualify for and I realize it is not suitable for my tax preparation, can I discontinue using it and use another?
1042941	Is there any free file option for an estate return which will not have any tax due?
1042998	Retun Is there any free file option for an estate return which will not have any tax due? Thank you, Michael
1033727	After having been referred thru "free file" to the turbo tax, it was not until the VERY END of the filing that TurboTax was collecting 29.95 to file the taxes. I followed all instructions thru the irs.gov site to file for FREE. What gives? Why is turbotax collecting the \$\$\$\$ when the site link from irs.gov states that EVERYONE gets to file for free.
1042199	I filed free federal (1040ez) with TurboTax online. I paid \$10.95 for filing my state return with TurboTax. On 2/8/05 I received a confirmation e-mail saying my return had been accepted. Today 2/17 I receive an e-mail say "our records indicate that the IRS has <u>not yet accepted your electronically filed return</u> ; therefore <u>your refund has not been processed</u> . Were are contacting you to notify you of a price increase that affects the refund processing service you selected (in my case I asked for it to be mailed). As of Tuesday, February 22, 2005 the price of Refund Processing will increase from \$19.95 (???) to \$24.95. To ensure that you are not affected by the price increase, you must correct and re-submit your tax return prior to 10:00 PM (PST) February 21. If you are unable to meet this deadline, you can still use your refund to pay for your Turbo Tax service fees, but you will be charged \$24.95. I called the IRS this morning, received a confirmation # and a mailing date. My return was confirmed by the IRS on 2/8 my check is being mailed 2/25. TurboTax has my credit card # since I had to pay for my state return. I can not get an answer from Turbotax using IM. Cannot get a phone # for a human. The IRS said to contact you. Wonder how many other people who used their "free federal filing" are now being threaten with a \$24.95 Refund Processing fee? Is this "little mix-up" and do I have to "wait and see it they charge my credit card , sending more time trying to get this money back. Don't you think the public should be advised that this is possible fraud. Intuit, Inc. is too big to making stupid errors like this. Please let me know. Thank you so much.
1038611	Good Morning, I was provided this email by Mrs. Lober of the Internal Revenue Service (badge # 3505077) who suggested I contact you due to problems with the efile site listed

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	<p>below. This I am very concerned because this site has my personal information (including social security number). PROBLEMS INCLUDE: No email or phone support offered by this site as stated on their main webpage. No email or phone support offered once you log into your account unless you provide your credit card number and pay \$1.95 for each non-tax question asked. According to the IRS, these sites are required to offer support on their main page for all customers as part of the agreement to participate in the free file alliance. If it's helpful, here's the background info: Through the IRS webpage on e-file options, I selected a site that advertised free filing of your tax return if your AGI was less than \$32,000 for 2004. After clicking my acknowledgement with IRS (http://www.irs.gov/app/scripts/exit.jsp?dest=http://free.number1tax.com) that I was leaving the government webpage, I found myself at this website: #1 Discount Tax Return Service LLC http://free.number1tax.com/ I selected the "try it now – risk free" link and set up a new account. I provided my social security number, birth date, address, email account, and selected a password which I was not asked to verify (only entered once). Upon submitting my information and creating an account, I was redirected to their "secure site" at this webpage address: https://philidelphia.no1-discount-e-file-tax-return-service.com/save_secure_login.afp . I then completed a questionnaire which asked several questions about deductions, non US accounts, and whether or not I was disabled or blind. No where was I asked basic tax information such as my adjusted gross income or federal income tax withheld. On the final page, I clicked the submit button and was given the message that my account had been logged out "due to inactivity" and that I needed to log back in. I have been trying to log back in for two days and each time, I am given the message that my account has been inactive too long. I am not able to access my account in at all. In an attempt to get contact of any kind, I created a new dummy account so that I could find the "extensive online support center" for those with accounts through this company (https://philidelphia.no1-discount-e-file-tax-return-service.com/support/support.afp?af=02210320-1&st=531927526&tax_year=2004). I am not willing to pay for help when there is obviously something wrong with this site. I am VERY CONCERNED that my personal information now resides with a company who is in blatant violation of their agreement as part of the free file alliance with the IRS which requires them to provide customer support to anyone from their main company webpage. This is in no way acceptable. Please contact me at your earliest convenience with information on how I can get ahold of this company and have my information removed. At the very least, this website should no longer be listed as a legitimate e-file option through the IRS webpage. Thank you, Veronica</p>
1020814	I would like to file my taxes online, but i don't know how,could you please help me or tell me how. thank you. jesda1@aol.com
1022151	I have my 1040 ready to file and I heard I could do it on line and free. Is that true and how?
1022362	I used H&R Block's so-called Free File program to file my Federal taxes. I linked to H&R Block's site through the IRS website. I ended up being charged \$29.95 for this "free" program. When I called H&R Block, a representative told me that I must have "broken the link" to the free file website, that it was the fault of the IRS website that the link was "loose" and that I was not eligible for a refund of the money I paid for my "free" filing service. It is seemingly very easy to break a "loose link" like I did, and H&R Block can easily take advantage of people who break off from the Federal link so they can charge for the filing service. This is unfair to consumers who expect to be filing a free return. I am sure it has happened to others who have taken advantage of this program. I would ask that, at the very, least, that the companies offering free file programs be required to enter disclaimers that "breaking the link" with the IRS website could result in the free filing program not being free.
1022901	I filed using TaxEngine.com, one of your free file sites. This site stinks, to say the least. I didn't request an e-file because I didn't know the amount of last year's return, but they e-

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Reference #	Question
	filed it anyway. I could not view or print any of my tax forms. So now I don't know what will happen to my return. Thanks a bunch.
1022969	I signed up for free tax preparation and e-filing at Turbotax.com via the irs.gov website. I used the link from irs.gov to turbotax as directed to do. However, I am ready to electronically submit my federal return and I'm being charged a \$19.95 tax preparation fee by Turbotax. What steps do I take to have this removed? Debbie Director of Accounting - Pizzuti Interests dschumacher@pizzuti.com
1023020	I have always found your website very helpful. Unfortunately, this year I decided to try one of the websites offering "free filing". I chose taxnet.com and have had nothing but problems. My prepared returns never moved properly through their status'. The only time they did move was when I sent an inquiry. When I finally received an Accepted Status from the IRS, I discovered that my itemized deductions had magically changed. Now I have to file an amended return to correct the error. My "free filing" has cost me a great deal of time and added paperwork. I strongly encourage you to consider removing taxnet.com from your list of service providers.
1023070	I filed my taxes on taxbrain.com. The web site said I should be getting my taxes back on February 18 th. When I checked on the IRS web site it said the 24 th. I paid \$30 for Quick Access, and now it is taking longer than it should. How can I get my money back from quick access? I don't want to pay for something I'm not getting. Kandise
1022794	I tried to start a freefile return at online-taxes.com but the "get started" page comes up blank. I can find no way to E-mail them. If we can't use them to freefile, you should remove them from your list. Here is the page that does not work: www.online-taxes.com/2004/main/FREEFILE/getstarted.asp
1025074	i just want you to know that i have spent 3 hours e-filing with turbotax.com from the FREE e-file link on your website. i only want to e-file my federal tax return and after spending 3 hours completing it, when i attempt to file it, i find out that until i pay 19.95 to also file my state return, i can go no further. i consider this extortion and refuse to pay. perhaps you should remove them from your FREE e-file link, because like so many things these days, it is a scam.
1028202	I have been trying to access Turbotax for over 3 weeks.... it let's you get to the sign on page and stalls out....this is extremely frustrating...Can you help?
1023790	would like to know how you do your taxes online?
1021848	Hello and thank you I need to know how to file. I normally pay someone but I think I can do if I know what forms to use. I am single with a total income of 22,000 for 2004. No dependents. No property. No interest just the income. Stella
1021986	I went through your web site and choose TaxAct Online because it said it was free to file and now that I'm done entering all my information they want \$7.95 to file. What a rip off.
1026218	It does matter how you obtain the FREE e-filing through our federal program. Through our TaxACT.com website we do offer a FREE federal product called TaxACT Standard that you can prepare online or as a downloadable product. The program itself is free and you can even print a copy of the return for free. We do not offer free e-filing with that program. With the Standard program if you choose to efile your Federal return then we charge \$7.95. We also would charge additionally if you decide to purchase a State program and file. The IRS Free File Alliance (FFA) program is offered through the IRS website only, and explains clearly that you need to follow the guidelines set forth by each participating company offering a special FFA program. The IRS website explains.... Before Getting Started: A few points are worth noting. For instance, if you qualify, you can prepare and file your federal tax return using Free File. But you may have to pay to file your state return. You are under no obligation to buy any products or services. When choosing a company, be sure to link to their Web site through IRS.gov. By going directly to a company's Web site, you may not get the free offer. Relating to TaxACT, in order to qualify for the FREE federal efile with the FFA program you must go to www. IRS.gov and select the company and program of choice. You must complete the registration process in

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Reference #	Question
	order to qualify as a registered FFA user and receive the FREE federal e-filing through TaxACT. Thank you for using TaxACT. Please let us know if you have any further questions. TaxACT Technical Support Support@taxact.com CC: 274 For faster service and to avoid communication errors please include all previous correspondence in any future emails. AOL USERS: Please check the "Include Original Text in Reply" box at the bottom of your email window.
1031230	I am not satisfied with the Free E-file service I have been given by H R Block. I chose their company out of past history to help my daughter file her taxes. I used their Help e-mail section to ask questions and notify them of my difficulty of even viewing some of the links on the pages. The first response was to a email question I sent to the problem of being unable to print her return. They suggested clearing temp. internet files which I had already done. I had read the help topics provided. I sent a second email; I was more specific this time that I could not view some of the links on the pages even the one to print her return and one other concern about what tax form they were completing for my daughter's return. They answered back, saying they did not give tax advice from tech support. So be it, but they ignored the other problems with the links and steps to finish the return. I was unable to click on a link(s) to print the return except one of the 4 times we were in the site. We are mailing her return, so much for free e-file. Thanks. P.S. - We did go through the IRS site to H R Block.
1029732	I went through IRS.GOV and selected complete tax and went through and completed the forms. I made under \$6,000.00 in 2004. I am claiming two children on my return. At the end of the forms, it says I have to pay \$32.95 in order to e-file. I have e-mailed them regarding this and was supposed to receive an answer back within twenty four hours. It has now been almost one week and I still don't have any response. Could you tell me if the filing and preparation should be free for my status? My ID name is holly1970 for this filing. Thank you. Holly e-mail (using a friend's since I don't have a computer) michelle1665@aol.com
1029682	We tried to use H&R Block E-File for free and spent about an hour completing the forms. At the end we found out that we need to pay by credit card, With a small note saying that our form is possible for free but need to pay upfront. If it says free ... This is not... We would have never started if we knew that we need to pay and maybe get the money back if the terms are correct.
1029319	IRS: This is to inform you that there is misinformation posted on your > website regarding e-filing from H & R Block TaxCut. The entry reads > "...e-filing for all taxpayers. No restrictions." I have found that > TaxCut specifically excludes residents of Puerto Rico and the United > States Virgin Islands from e-filing even though they are continuing to > sell their software here and promoting the (unavailable) e-filing. I am a > resident and native born U.S. citizen of St. Thomas, U.S.V.I. and tried to > e-file with both my purchased TaxCut Deluxe and the Free File version on > the IRS website and was unable to file because we are listed as a "foreign > address"! TaxCut technical support has confirmed that they do not allow > e-filing from the U.S. Virgin Islands or P.R. > Why are they allowed to post the above quoted misinformation on the > IRS website? > > Sincerely, > Looking for alternatives in the U.S.V.I.
1029259	Hello - I just used the IRS website and prepared my 2004 Federal Tax Return using TurboTax via the Free File service. The website said, "Free federal online tax preparation and e-filing for all taxpayers. No restrictions. Everyone qualifies." Yet when I completed the return, they wanted to charge me \$19.95 for a 'tax preparation fee'. Why was this not explained to me up front? This is not what the IRS website promised. I will not go through with this if there is a fee. Pls. help. sincerely, Bill
1029356	I'm having a problem finding what I need to e-file. I have W-2's for IN. and IL. both. But a resident of IN. please give me any information you can to help me e-file. I have not done it before. Also I was told there are companies that do both State and Federal taxes for free and I can not find any of them it would be greatly helpful if you could help me with this.

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	Thank you Jeanna
1031495	Dear Sir/Madam, I am not at all sure this is the right site for my comment. If not, would you kindly forward it to the proper authority. I currently mail my tax returns rather than file electronically. The reason is that the companies "free" filings are not free. To begin with, intuit (I use turbotax) requires payment subject to a rebate. Also, their tax filing is not free. May I suggest the Service provide their own access. I will then be more than happy to file electronically. Cordially, Matthew T.
1030282	i attempted three times to access the suggested websites for free e-filing. each time i got to the sites i was given a fee price to continue to use the filing system. how can they advertise free filing if when accessing the sites i am being charged a fee?
1025335	This company is awful. They want to charge me \$3.95 to refile a rejected return--the mistake was i inadvertently selected month "3" instead of "4" for my birthday. Also, I was misled that I could e-file my state return for 2.99 but it is actually only the form which I can't use because I live in one state and work in another and it won't let me select that option. There is no non-toll phone # to reach them. They want a cc # to answer any question. Can I choose another more, reputable tax prepare and start over and e-file? OR do I have to stay w/ this company? Help.
1030446	I linked through the IRS.gov website to file for free and selected H & R Block's Free File and they still charged me 29.95. This is FALSE ADVERTISING. Take them off your list of free filers. I'd also appreciate any help you can give me with getting a credit for the amount charged to my credit card. Thank you, Marysol! Do you Yahoo!? Yahoo! Search presents - Jib Jab's 'Second Term'
1030280	Hi, I'm trying to file my taxes online but I am not having any luck. I have a emac system osx. Can you recommend the right software for my system. I have in the past used turbotax that I have purchased and like very much but I am having difficulty doing this off the irsgov sight. I'd obviously like to not have to purchase this software and use the free file system that is offered. Please help.
1030243	With the help of turbo tax program, I completed form 8379 for the injured spouse. The program put the injured spouses portion of income in the spouse's area and the exemption number should have been 2 for the injured spouse, it was 1. It seems as though the program transposed the figures into incorrect fields. Please let me know is this is the way the form should have ended up or if the program is faulty. Thanks.
1032091	I have answered the questions to obtain a free efile company three times and have not received a reply. If I select a company myself, will filing be this difficult too?
1030277	i used free file www.irs.gov, the web site is kansa,no1-discount-e-file-tax-return specialist.com, the web site will not allow me to go back in. everytime i put in password it states time elapsed and i can not get in to delete my information, this is what concerns me. once my info was in they also gave this web site to use. www.no1-income-tax-return-submitting-specialist.com i can't get in to that one either please see if you can help thank you
1028757	Why do U.S. citizens have to go through some company to file our taxes online? Why doesn't the IRS have their own site for filing taxes? U.S citizens pay for the IRS with our tax money and should not have to pay some company to file our taxes. The IRS is always crying about the need for more TAX PAYERS to file online to make their jobs easier. At the expence of the U.S. citizen. So why don't they take out the middleman? Going through these companies do not add more jobs to the U.S. workforce.
1036616	I went to their site from the irs.gov site and started using it, but when it asked me to create a username & password, it stated that it was free until I get ready to efile or print. I thought the whole point was that it was suppose to be free to efile. Connie
1036633	I tried to file my taxes on the free H@RBlock.com , but it left me stuck, kind of frozen and could not start filing my taxes. I logged in, put my password, my id, and there was no place to click for Next, so I did AIT + N but still did not do anything. I wonder how many people have tried today and something like this has happend too.

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1036217	i attempted three times to access the suggested websites for free e-filing. each time i got to the sites i was given a fee price to continue to use the filing system. how can they advertise free filing if when accessing the sites i am being charged a fee?
1035972	I went to a filing site because this website had a link for it. I registered to file my taxes and decided I would rather do it myself. This website has provided me with no information on how to take my personal information (name, soc. security number, etc) off of their registry. I am terribly afraid it was a scam, and am worried about identity fraud now. The site is called #1 Discount Tax Service and it is at https://mytax.no1-discount-e-file-tax-return-service.com If you could verify their legitimacy or offer any assistance I would appreciate it.
1036109	Your "guide me to a service" is very frustrating, looping back to the customer fill-in page after it is filled-in. Just keeps erasing what is filled in and will not proceed.
1034295	have been bouncing your site 4 over an hour and still can't get to where U > file taxes on line can someone help/direct/guide me 2 the right > screen/link/page. you need 2 make this as easy as it is said 2 be because > it is not 1 2 3 dose not get there because you can't get there
1034319	Why is Turbo Tax still charging to file on line when it is suppose to be > free?????????
1034484	I just spent 2 hours doing my taxes on the supposedly FREE Turbo tax web site only to find out that the STANDARD form is not free. No upfront info as to what is free and what isn't. You want more people to file electronically then get a hold of you individual tax sites and do it right!!!
1033030	a Wall Street Journal article said you have download versions of TurboTax. I searched the site but could not find it. Can you direct me to exactly where it is found? thanks.
1040024	I got on free file and then found out i can't transfer my 2003 personal data over to my 2004 return. I want to get out of free file and go back to my basic turbotax that i have been using for the last four years so i can transfer my data. I have been trying to get out of the free file for four days and nobody from technical support in tubotax on the web has been able to help me. they say once i have entered your site I can not get back out. I find it hard to believe that there is no way to get out of the free program and pay for the same turbotax on the web that i have been using for the last four years that will let me transfer my last return data over. > > I have tried for four days with about four of my computer savy friends and turbo tax technical support with no luck at all. I would really like for someone to call me at days (6:30 am till 4:00 pm) day and nights to please get me out of this nightmare. > > thanks > > Clint > clinttucker@mindspring.com
1040150	Sir: I am following instructions, which state go to IRS' Free File site, www.irs.gov/efile/article/0,,=8986,00.html and press the Start Now and this leads to a list of Web Sites providing free filling services. The problem I have I cant find the start now button. Can you help me/ Thanks Bill
1040152	My problem: I filed through IRS as instructed, then elected Trubo Tax as my file agent...I filed electronically but had one piece of incorrect information, so the return was not accepted. I then elected the option of mailing in my return, so, as was prompted by Turbo Tax, that I could do so... I downloaded the forms/info and I mailed in my tax return the next day! I just received an email from Turbo Tax telling me that I will be charged 24.95 for filing my taxes through their services if I do not refile before 2/22/05. This is a free service if you enter through IRS...so my question - what is going on? I sent an email to them...but am not confident that it will be cleared up. Help please! Strange they don't have information about their own program! If you need more specific information, please contact me.
1035433	Once again I have attempted to electronically file by using the <u>IRS path</u> to free tax filing on your site. It let me to <u>TaxAct.com</u> which I used to prepare the return. At the end of the process, it tells me that it is NOT free to electronically file, only free to prepare a paper return. So once again, you will receive a paper return and I am sure many other taxpayers will be following the same path. I wanted to notify you of this as I am sure your

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	goal is to have as many electronic filings as possible. Someone needs to review the list of "FREE" electronic filers as you are not going to the desired results when they do not turn out to be free at the end. Hope this is helpful to you. Thanks for all the other helpful information on the website.
1032391	My husband and I used the "free" efile from your website to do our federal and state taxes. I was very mad by the time we were finished to find out that, yes, the federal tax filing was free, but it cost \$19.95 for state taxes and another charge for \$19.95. Your "lure" reminds me of too many marketeers who falsely lead you spending more money than intended. Yes, I know that I could have changed my mind and just done the federal, but that's not the point - I feel cheated! CAN'T YOU AT LEAST STATE ON THE FRONT PAGE OF YOUR WEBSITE ABOUT THESE CHARGES - I expect a LOT more from the government.
1032232	I went to the IRS site. Where it said I could file for free. The IRS site referred me to <u>EFILE TAX RETURNS, INC.</u> When I went to the site. This site will only charge me \$24.95 for Federal tax return processing and electronic filing. My questions are: 1) If I fill out the IRS site info and it says it will send me to place that does filing for free. Why does that site say it will be \$24.95? 2) Why do I have to go thru a private company to file my taxes? My state (NM) allows me to file direct. 3) I will again file this year paper. The IRS is pushing private companies. And I do not understand why? As I prefer to file on-line. Will not pay, nor will I give my tax information to a private on-line company. Please advise on the above questions.
1041025	I have tried for four (4) days to use free file. Once pressing the get started button, nothing will happen. The sight finder spins until it clocks out. Is this free file still an option. CAN you give me another link to get to the approved list of on-line providers. Thanks, Ryan
1032878	It seems the IRS would like as many as possible to file electronically. I file a simple 1040, and if I have a return, I have it sent directly to my bank. But I've gone to two different "free" sites, and both indicate the site is free "until" filing. I'm not going to spend a lot of time filling > out the forms and then find I have to pay to file it electronically with > the IRS. Is it free or not!!! > > Glenn
1041714	I would like to use Turbo Tax but I cannot get past the screen to "check resolution" My resolution is right and complained about this early this week. What is the fix? Donna
1040915	In using the H&R Block Free Tax procedure Through the IRS Free File I was cut off completely. In questioning this action I was told that all the information was saved each time I hit the 'next' ox. I did not know how to return so I completed my return by hand and mailed it in. I now need to erase all information from the computer connection to H&R Block and the Free File. How can this be done? Just disconnect all.
1035795	Why Can't I file on line on your site without having to use a private/professional tax preparation service? I filed my State tax return last year on the state site and it worked fine. Please look into this. I feel it should be a free service to everyone with no strings attached.
1035880	Gentlemen, I have received info that I may qualify for free services, after entering basic info re my age, estimated AGI, etc. From the list of free services, I have selected TurboTax. When I click on TurboTax, I am told that I have selected a "for pay" service. I have gone through the procedure repeatedly, but am unable to access free file services. Please help. Thank you.
1040363	I put the wrong e-mail address on it. what can I do JAMES
1035264	I did go to the IRS official web site. Thru further research I have understood that it was probably a pop up ad that I used. As I said it was a very expensive mistake. I am very disappointed that the IRS would allow such a an avvertisement on the site. It did offer FREE filing and ended up costing me \$148.95.. I don't know that I will ever e-file again.
1040309	I JUST FILED MY 2004 FEDERAL TAXES ON LINE WITH E-FILE. I put the wrong e-mail address on it. what can I do
1040391	The e-file web site taxslayer.com should be taken down for false advertising. They

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	<p>claimed to have free federal AND state filing for those under 25 or over 62. I am 24. This is blatant false advertising. I have never been victim to anything like it in my life. On their main page it claims to be free in big bold letters. I searched all over the site for how I could have accomplished this: it is impossible. I paid the \$9.95 and figure I may be able to keep this from happening to others. it might be better to inform you rather than complain to them, so something can be done. I sincerely thank you for your time.</p>
1037991	<p>I was provided this email by Mrs. Lober of the Internal Revenue Service (badge # 3505077) who suggested I contact you due to problems with the efile site listed below. This I am very concerned because this site has my personal information (including social security number). PROBLEMS INCLUDE: No email or phone support offered by this site as stated on their main webpage. No email or phone support offered once you log into your account unless you provide your credit card number and pay \$1.95 for each non-tax question asked. According to the IRS, these sites are required to offer support on their main page for all customers as part of the agreement to participate in the free file alliance. <i>If it's helpful, here's the background info:</i> Through the IRS webpage on e-file options, I selected a site that advertised free filing of your tax return if your AGI was less than \$32,000 for 2004. After clicking my acknowledgement with IRS (http://www.irs.gov/app/scripts/exit.jsp?dest=http://free.number1tax.com) that I was leaving the government webpage, I found myself at this website: #1 Discount Tax Return Service LLC http://free.number1tax.com/ I selected the "try it now – risk free" link and set up a new account. I provided my social security number, birth date, address, email account, and selected a password which I was not asked to verify (only entered once). Upon submitting my information and creating an account, I was redirected to their "secure site" at this webpage address: https://philidelphia.no1-discount-e-file-tax-return-service.com/save_secure_login.afp . I then completed a questionnaire which asked several questions about deductions, non US accounts, and whether or not I was disabled or blind. No where was I asked basic tax information such as my adjusted gross income or federal income tax withheld. On the final page, I clicked the submit button and was given the message that my account had been logged out "due to inactivity" and that I needed to log back in. I have been trying to log back in for two days and each time, I am given the message that my account has been inactive too long. I am not able to access my account in at all. In an attempt to get contact of any kind, I created a new dummy account so that I could find the "extensive online support center" for those with accounts through this company (https://philidelphia.no1-discount-e-file-tax-return-service.com/support/support.afp?af=02210320-1&st=531927526&tax_year=2004). I am not willing to pay for help when there is obviously something wrong with this site. I am VERY CONCERNED that my personal information now resides with a company who is in blatant violation of their agreement as part of the free file alliance with the IRS which requires them to provide customer support to anyone from their main company webpage. This is in no way acceptable. Please contact me at your earliest convenience with information on how I can get ahold of this company and have my information removed. At the very least, this website should no longer be listed as a legitimate e-file option through the IRS webpage.</p>
1039801	<p>I prepared my taxes going thru the IRS site to the Taxslayer site. Although I did qualify for the free file since I qualify for the Earned income credit, I was charged the standard 9.95 fee. I have tried to contact them several times, but I cannot get any reply. I only have an email address for support...I have tried to find a phone number, to no avail. I was hoping for some assistance with this...Thank you so much.</p>
1033680	<p>I have received info that I may qualify for free services, after entering basic info re my age, estimated AGI, etc. From the list of free services, I have selected TurboTax. When I click on TurboTax, I am told that I have selected a "for pay" service. I have gone through the procedure repeatedly, but am unable to access free file services.</p>
1033758	<p>After filling all questions and clicking SUBMIT; the page flashes and the boxes are clear,</p>

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	but I get no list? Does this I'm not eligible or is it not working.
1036777	Just need to find a fee e-file site to file 2003 1040 seem to be having alot of trouble w/ this. If you could mail a link that would be great. Thank You
1040394	I just tried unsuccessfully to file our federal taxes via one of the options for free online tax filing. I already spent numerous hours compiling our taxes by hand and simply wanted to submit them online to save time. However the only option I found was to start from scratch, keying in all of our data and answering questions to redo the taxes. After spending a couple of hours working on that, I was unable to answer one of the questions and couldn't even finish it. When I got to our state (Virginia) taxes, I could pretty much enter the amounts straight from our handwritten forms and I was done in just minutes. Can you offer a similar option on your website so that people who already calculated everything and just want to submit info online can do so? Thanks
1042478	I thought that using turbotax through your website was free. However when I started to fill out the forms I was informed that I would pay nothing until I efiled or printed up my return. So I exited the program because I thought it was free and also I had no way to know how much they were going to charge me until after I had spent an hour filling out the info. I find this highly deceptive and unethical. Please don't encourage people to efile by telling them its free when it is NOT free. I will continue to file my return the old fashioned way. It only costs me \$.37 for the stamp and I know the fee up front.
1038509	I am unhappy with the process of an error that occurred with an e-file. The error has been identified with in your company, however further delays will prevent me from receiving my refund for at least another two weeks. Please advise why!
1038414	I went to your website to find programs to file 1040ez free, both TurboTax and TaxAct said that they were free for preparation and e-filing. After completing the form they both chose to tell me that there was a charge. This seems to be very deceptive and because I found them on the IRS.gov site I certainly believed that they were above-board. Sounds like the bait and switch tactic to me. If there truly is a free preparation and e-file program, please let me know. Sally
1039318	I am trying to use the IRS free file options online. I selected the Turbo tax site and read all they published about who qualifies for their free file program. At the beginning of the interview to prepare taxes I answered all the prequalification questions and received a response indicating that I qualify for their service. I proceeded to complete my entire return. At the last page I was informed that I must pay \$29.95 to finish my return. When I complained to the company I was told there were additional requirements which I was not told about beforehand. I feel misled by the site and it's advertisement. I now need to start somewhere else to prepare and file my return. Is it possible that more details could be required so that potential filers can make informed decisions?
1022962	I just wanted to let you know that for the past 2 tax years I have tried to e-file (free of charge according to your website) from TaxAct.com. Unfortunately after completing the tax forms, I have been asked to pay for the e-file service. Perhaps you should investigate why the free e-file service isn't available, even though the TaxAct.com website is entered from the IRS portal. Regards, Valerie
1022598	Hi, I am interested in using e-file. I do not have tax preparaton software. Per page 3 of 20041040ez instruction booklet, it reads that you can download the software on the internet. Do you have suggestions as to which one to use? Can I download it from your site? Thanks so much. Trish
1024902	On Sunday 2/6 I filed my taxes online via a free online filing service. I was told upon completion I would get the option to print out the forms as completed online. I did not receive a confirmation to my email either. I never received the print forms option. How can I find out if my return was actually processed? Should I just file again ???
1025089	I think is abhorrent for the IRS to put lies on their website. There is a list of supposed free tax filers. I input all my data after going through the IRS site. At the end, as I was trying to file the return, the screen says there is a \$19.95 charge for Turbo Tax to make the filing. I

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	tried to get to the bottom of the problem, but was told to call tech support, who also wants \$9.95 plus to answer any question. Damn you to hell for your lies.
1028075	I do not see how you can state that E-filing is free on your web site. After spending an hour completing my taxes through your site with Turbotax, I discovered there would be a \$19.95+ fee for E-filing! Why is this? Thank you, Jason
1027441	I heard on the radio this morning that the IRS is giving away 19 tax preparation softwares, including Turbo Tax and Tax Cut. I have spent 15 minutes searching the site and I cannot find them. You sure have made them difficult to find. Please send me the URL to the page I need to download Tax Cut. Thank you! Joe
1027474	Im trying to e-file my federal return, but an 502 error keeps coming back. I've called the company, but they do not have a federal ID #. What do I do now?
1024396	Hey folks, What do you do when you opt to use H&R Block's online FREE tax service listed through the IRS.GOV Free Alliance website, and discover when you're "95% complete" in the service that you are now required to pay a 29.95 fee for services you did NOT need or request. Specifically I chose the "no" option for H&R Block's expert summary offer (or whatever it is) as I neared the completion of my online federal return--but the system proceeded to act like I chose "yes" and will not let me finish without choosing a payment option! How come they can do this if they are supposedly a "free service"? Can they do this? How do I complete my return and get out of the site without having to accept this 29.95 charge?? Thanks, Martha
1028570	While searching 'free file' for a service to file my returns electronically the site sent me to services that it claimed would work for me but they won't because they insist on Microsoft's 'Windows' program or that I use a Macintosh computer. I use Linux. It would be nice if you would add this criterion to those used to route potential users to providers. Thanks for your attention. russell bell
1028503	Are they affiliated with IRS ? Is it safe to file with them? Please let me know if this the service provided by IRS to help people. Thanks, Jyoti
1028396	I'm trying to submit my tax form electronically but when I get to the end, Turbo Tax wants to charge me. Who qualifies for the free tax submission? My return is pretty basic; Schedule A, W-2s. Thanks. Donna Shropshire
1021846	I need your assistance. I tried using the fileyourtaxes.com website which I thought offered free e-filing. I live in North Carolina and that was one of the states listed which qualified. When I neared the end of my return I was sent the message that the return would cost \$22.75. Did I do something wrong or is this a fee for something else? --- Outgoing mail is certified Virus Free. Checked by AVG anti-virus system (http://www.grisoft.com). Version: 6.0.772 / Virus Database: 519 - Release Date: 10/1/2004
1021906	This e-file filing system is a great idea but, I would like to report a problem. I filed my federal form through TurboTax and I recieved confirmation of acceptance but, the program crashes on my attempts to print the form for my records. I tried five times with same results each time. I Just wanted to advise you of this problem.
1021925	I'm attempting to use your access to free tax preparation software but can't seem to access the companies' product under your free access. Why is something so simple so complicated? When I select a particular company and their product my only option is to 1)leave the IRS site or 2)return to the previous page. How else do I access these free preparation products? Am I the only one who finds this difficult and confusing? John
1026049	I used Turbo Tax past 4 years. I would like to use it again through your free filing program but do not know how to access that software. I have obviously accessed your site but do not know how to proceed. Please advise. Thanks.
1025777	According to The Wall Street Journal on February 2, page D1 TaxCut software is available free. I have been unable to find the link, even after a search. How do I download this software? Thank you. Charles R Jones Do you Yahoo!? Yahoo! Search presents - Jib Jab's 'Second Term'
1025229	Hi, This year I have run into every damn site you guys listed, timing out, this is Sunday I

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	am trying, or they only make be pay! This year trying to efile for free I have now wasted 2 hours, and I am STILL trying to get a site that does not sound so DAMN unclear, that they make it sound like i HAVE to pay something. Damn it! Who of you guys qualifies these vendor services' site first pages? They are NOT helpful, and I get slow slow computer timing out, and tricky home pages! Make them be easier to get into the free filing, or GOD DAMN it why doesn't the IRS make it easy for us public to efile to you guys, and NOT have to go through these services that right now to me are just trying to slow down the filing process, and rip me off. I plan to go to the post office, and file by paper, if I don't get joy in the next hour! What the hell!! You guys better have someone check out and vet out these services you list, the top 3 are all a waste of my damn time! I will go back to paper, when last year I e filed and loved it. This year, you guys better jump on these top 3 listed vendors for free e filing you list, because they are bogus, slow, deceptive, and I haven't yet succeeded in staying on them without going through deceptive unclear choices that mostly lead me to PAY. Damn it! Do something, make these guys you list be CLEAR and EASY on free e filing! Otherwise you are wasting my time. You surely have some guys whose paying jobs include vetting these damn top 3 top free e filing sites! Get you people onto handling these supposedly free e filing sites you list, as they are NOT clear, not showing a clear fast route to free e filing!!!!
1029611	I just used OnLineTaxes.Com to complete a Federal tax form for my daughter. At the end of the form, I was supposed to provide a credit card to pay \$7.95 for this service. I accessed this online form through the www.irs.gov website and had the understanding that this service was free. In my case it was not free, IF I had chosen to submit the form. Now, OnLineTaxes.Com has all my daughter's information for free without providing any service. I think their name and link should be immediately removed from your website so others do not have the same disgusting experience that I just had. Thank you for providing this free service to us. I've used it in the past, but obviously used a different service provider and was satisfied with the results
1029574	Hi--In the past I've had my students use the free electronic filing sites to practice filing taxes. We used Test A. Test as the person's name so that it was apparent this was not a real return. I'm not finding any information on the IRS site this year to indicate we can still do that. Can you let me know if it is still a possibility and give me any instructions or tell me where on the site to find the instructions. Thanks, Anita
1029855	Hello, I efiled over a week ago with TaxSimple and have no notice that it was received. I was able to print the completed return. Is it necessary to type the taxpayer's names at the bottom of the return where one would ordinarily sign it? If that was required and I didn't do it, should I have gotten some kind of rejection notice by now? Thank you for your help. Jack
1029869	I have been unable to find the "free" tax preparation software that I have read so much about in the newspaper. I need TurboTax, but there is nothing on your site to show where to get any kind of tax preparation software. Even under e-file there are no links to anything except preparers and forms etc. Since this is something that will help the IRS with its paperwork load I am surprised there is no link on your homepage directly to the software, or is this media hype that has taken me in?
1029890	Where can I download the "free" software from the IRS website? End
1030185	I filled in the information on the page that " Guide Me To A Service" for free tax prep, and when I hit Submit it just returned me to the same page and all the information I put in was gone, so I did it again and the same thing happened. Am I doing something wrong or is the page not working?
1026541	I heard on a local radio station that I could download Turbo Tax software thru www.irs.gov. Is this correct? If so where do i go to download this software. Thanks, Thomas targalas@earthlink.net Why Wait? Move to EarthLink.
1029626	Monday 2/7/05, and haven't received any response from the IRS. It was my understanding that I should have received an e-mail confirming my return. I am not sure where to go from

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	here. Please help. Thank you. Jule'
1030569	When I try to get a list of available companies to file my taxes free the page cannot be found. I am using the start now button on irs.gov home page. What do you suggest? I am getting very frustrated it is starting to become a case of to good to be true.
1029997	I recently used the free file turbo tax program through the irs website to file taxes. When checking the status, I found it was rejected due to a typo on the birth date. I made the corrections and refiled as instructed, waited a few days, then checked again only to find the same error message there. Thinking perhaps the transmission didn't go thru, I tried again - waited a few days, same thing. Does it take longer for confirmation when resubmitting? Or do I keep doing it over and over again? I hate to make it worse by continually resubmitting it and causing more confusion or delays. Please help. Jerrod
1030079	Dear IRS: I need to file Form 8621 and cannot locate this document on Turbo Tax or Tax Act. Any help in an on-line service that would have this form available so that I may e-file my income tax return. Diane
1029933	I want to e-file, but require two conditions: 1. Will not pay to e-file. I might pay to e-file if the IRS offered compensation. 2. Will not attempt to e-file with any site that does not give the conditions for free e-filing up front. In other words, I will not supply any information and then be told that I can or can not e-file for free. I would be much more comfortable e-filing directly through the IRS. I think you will provide this service for economic reasons.
1026408	I have been trying to access the website's of TurboTax, eSmartTax and TaxACT to file my taxes for FREE but cannot display any of these sites. I've hit the refresh button, checked my connection settings as recommended but have had no success. Are these web sites experiencing technical difficulties? Thanks for any help you can give me.
1026441	I found the free automated tax filing was not free and was almost impossible to use accurately. We need a method to submit our returns directly to the IRS. I do not mind buying the software to complete the forms but I cannot then use the completed forms from my computer to submit without going to a commercial firm and it costs almost the same as the free service. You have to pay to have a refund sent directly to the Bank by the free service. Please provide a method to submit my return directly to you. Thank you. Ray
1026493	Dear Taxact, I just finished my online tax return through your service and I had to give CC info and pay \$7.95 to finish my federal tax filing yet I connected to your site from the IRS site and it was made very clear to me that by doing so my filing with you would be for free. I did not chose to add my state filing to your service as that you told me it would cost \$7.95 to do so. Please look into this and refund me the charge I have already paid. What can I do to help?
1028683	Help! I just want to fill out the tax forms and e-file free. Why so much information??? How can one just find the forms to fill out and file??? Please tell me fastest way to get to where I want to go. Thanks.
1036039	I fill out this page: http://www.irs.gov/app/freeFile/jsp/wizard.jsp and all it does is refresh the page when I click submit. No red error messages saying that something isn't filled out properly just the same form for me to fill out again.
1036215	I went thru your website everytime I logged onto TurboTax. When I finished my federal return, they now tell me that they will charge me \$9.95. But this is what they say on your website: "TurboTax: Free federal online tax preparation and e-filing for all taxpayers. No restrictions. Everyone qualifies. More details" This seems like a bait and switch to me. Their advertising from your website is false. Can you please check into this?
1036715	I just wanted you to know that the HR Block site linked on your web page is somewhat misleading. I know that you have no control over the site listed, but I wanted you to know that when you click on the "start now" icon listed under the free file option on this website, it takes you to their standard package, and after filling out all of the information, it prompts you to pay 29.95 for the software use. It is very misleading.
1034286	Hello. I linked to TurboTax via the free file link on this website and after inputting all of my tax information, I was informed that my tax return would cost \$9.95 to file despite the

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	following claims on this website regarding TurboTax: "Free federal online tax preparation and e-filing for all taxpayers. No restrictions. Everyone qualifies." I emailed TurboTax and they listed four restrictions that they claim prohibit me from filing for free. That's fine and I don't intend to use them to file my taxes. I believe I'll be filing a paper return now. However, I don't believe TurboTax should be listed as a free file alliance company if indeed it is not. This is misrepresentation and many taxpayers would probably just pay the \$9.95 instead of starting over. I hope the free file listing for TurboTax is removed immediately. Thank you, Susan
1034338	How can I file my tax return by E-mail? I already have the return figured out by my CPA. I need to know if there is a form I can put it on to expedite my return?
1031722	I went through the IRS site to get to eSmartTax.com and followed directions to do a free e-filing of my taxes. Each time I entered the site I went through the IRS site to get to it. After completing all the forms when I came to the page to efile, eSmartTax.com is trying to charge me a fee of \$9.95. Is this right? I thought this was a free service. Thank you, Gail
1034684	yes im inquiring about my tax return. i have e- filed it twice with two different companies. h&r block online and turbo tax online. both free services. i need to know how to cancel the h&r block one that you have electronically excepted. check was to be mailed no direct deposit. please contact me with any solutions at or email at cgos1@adelphia.net thanks for your immediate attention to my problem. craig
1033559	Dear IRS, I heard there was an IRS site, where I could file my tax returns free. I've been trying to find this site, but invariably I'm shunted to some commercial site such as Turbo Tax, H&R Block, etc., etc. I'm not interested in these. Doesn't the IRS have its very own site...i.e., designed and offered by it, and of course free? Could you let me know the web address of this site? Thanks, Kerry B. Wilson
1039895	Your site says FREE E-file, but it is NOT free. My son and I did his federal tax via your WWW.IRS.GOV "free" E-file site and chose Turbo Tax Co. and near the very end of filing he had to "ACCEPT" a \$20.00 E-filing FEE and then also a \$20.00 "PREP" FEE for Turbo Tax / IRS ?? to process his return..??? YOU should "DROP" any tax company charging FEE's to file thru the IRS web site OR do NOT say on your site it is FREE !! Thanks, Barry (retiredbee@hotmail.com)
1032240	I would like to know if the free service will be here next year? I hope it will it saved me \$180.00 dollars. I bought a tax software a few years back. It worked fine but then I had to pay for the state part. The next year they wanted big bucks for both. This was no bargain. I went back to a local service and paid the price. So please let me know if the free thing will still be here. It's the way tax prep should be. Fast, Easy, and Cheap.
1032438	Dear Sir I went to the IRS site. Where it said I could file for free. The IRS site referred me to <u>EFILE TAX RETURNS, INC.</u> When I went to the site. This site will only charge me \$24.95 for Federal tax return processing and electronic filing. My questions are: 1) If I fill out the IRS site info and it says it will send me to place that does filing for free. Why does that site say it will be \$24.95? 2) Why do I have to go thru a private company to file my taxes? My state (NM) allows me to file direct. 3) I will again file this year paper. The IRS is pushing private companies. And I do not understand why? As I prefer to file on-line. Will not pay, nor will I give my tax information to a private on-line company. Please advise on the above questions.
1041034	Once pressing the get started button, nothing will happen. The sight finder spins until it clocks out. Is this free file still an option. CAN you give me another link to get to the approved list of on-line providers. Thanks, Ryan
1032859	I want to report an issue with Turbo Tax from your IRS website. I went to free file and chose Turbo Tax since I've used their software in the past when I made a living wage. When I finished they want to charge me almost \$40. \$19.95 for doing my taxes and \$19.95 for direct deposit into my checking account. I think this constitutes fraud on intuit's part. they should not be on the free file page. I'm going to another free filer. Please investigate When I emailed them to ask the question of why I'm being charged they

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Reference #	Question
	answered with an ad to sell me software. Janet
1040833	Is there an efile company that does form 2555 for foreign earned income
1040097	Dear Sir or Madam: I called earlier to get a free filing access and I can not get in for some reason. I was told to go to www.irs.gov, e-file (link)which I did, and small free files, then hit the start now. I can not get pass start now. It keeps going to the different sites, and it will not allow me on any of the sites to open to a form. My Popups are opened too. Can you please let me know what to do? Thank You Mrs. A. Z. Holowiak This is for my nephew, so it's a small form to be filled out.
1035945	Reference you "Free File" system. I chose Turbotax because I had purchased the Federal and State Program. Turbo Tax would not let me transfer the information over to their Free File system and wanted to charge me \$55 for duplicate software. I don't know who is in charge of your customer relations, but the companies are not cooperating with you. You need to do your own computer software program and set up your own website so that one can file their taxes with you without being ripped off. Bob
1042946	Today, at your official site, I proceeded through your process to determine if I qualified for free file. I completed the questionnaire on items which are used to determine qualification for free file. Upon completion, I clicked on "submit". The screen cleared, then another blank form came up. What happened to my submission? Why didn't I get a response to the questionnaire? Help.
1043219	I submitted my taxes using the 123 Easy LLC Free File link and am now not able to log in to check my status. There is no phone number or email contact for this company to report the problem. Can you please help? Thank you, James
1042546	Hi. I have turbo-filed my taxes using the free service provided; however, the program never gave me any proof that my taxes had actually been processed. How can I check to see whether they have actually made it to the IRS offices? Thanks for your help.
1042391	TaxEngine.com IS charging - 36.00! They say it is free until the very end then they say you must sign to have your refund subtracted from for two different fees. My income was less than 2000.00. Please, they are scamming us & you.
1042446	I wanted someone to know that I spent several hours today doing my taxes on the H&R Block free link that the IRS provided. That's after TurboTax wouldn't let me even start. After all that time and effort, when it came to the end, because I wasn't buying their product, they wouldn't allow me to e-file. If it states free it should be free.
1039281	I believe my TurboTax Free File return failed to claim the Child Tax Credit for one of my children. I haven't been able to figure out how to communicate with them except for a general comment form to which they don't reply. Their 1040x program isn't working for me. I guess I have to print a 1040x from irs and fill it out manually. I wish I had done that with my original return. I am not impressed with the Free File Alliance. While I can see why irs might not want to try to provide tax advice software, I don't see why simply having fill-in forms on the .gov website would be so difficult or controversial
1039345	i'm trying to use your free file and am getting nowhere?
1035944	Where is this so called EZ File located without any company involvement? Every time I try to get the EZ File I wind up going through some company trying to sell me something. I don't want to pay anyone for filing my income tax since my income return is straight foward, do long form, no interest deductions, no depends, etc. Please get me to the window that deals specifically with the IRS, no one else. art
1022267	I live in Australia and have normally received my tax package in the mail by this time. To date I have not received the 2004/1040 Forms and Instructions for Overseas Filers. Could you please advise me as to whether I will be receiving this package or not. Thank you Michael B. email: mstucker@ozramp.net.au
1021155	I was doing my online taxes with HR Block and now I can't get back on the same site I was 40% finished what can I do now?
1021431	Turbo Tax advertises on your Free File site that Turbo Tax is free for all taxpayers, no restrictions. However, I prepared a return at their site and when I got to the end, they

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Reference #	Question
	requested a fee of \$29.95 before I could complete my return. Investigating, I found that they limit AGI to 35,000 and mine was 35,200. This is misleading the public, I spent considerable time preparing my return and now find it was wasted. Earl
1027808	Can you find tax forms such as depreciation for rental income using Turbo Web? I am having problem with this. Why is it different from Turbo desktop? I thought I should be able to use the free version on the web per IRS suggested.
1027685	I heard there was an IRS site, where I could file my tax returns free. I've been trying to find this site, but invariably I'm shunted to some commercial site such as Turbo Tax, H&R Block, etc., etc. I'm not interested in these. Doesn't the IRS have its very own site...i.e., designed and offered by it, and of course free? Could you let me know the web address of this site?
1023317	I WENT THROUGH YOUR SITE TO USE COMPLETE TAX FOR MY SON. AFTER IT ASKED FOR SS NUMBERS, IT SAID I HAD TO CHANGE MY PIXELS TO 800X600 BUT WHEN I TRIED TO CHANGE IT KEPT CHANGING BACK WITH NO WAY TO LOCK MY CHANGES IN AND AS A RESULT, MY COMPUTER IS VERY, VERY, SLOW AND MY FONT IS LARGE. MY COMPUTER ACTS LIKE I HAVE A VIRUS. IT HIDES ALL MY BUTTONS SO I CANNOT SET ANYTHING IN. THIS IS NOT, I REPEAT NOT A COMPUTER PROBLEM BUT I BELIEVE IT IS A RIP OFF AND THEY HAVE SOCIAL SECURITY AND BIRTHDATES. I AM GOING TO TRY ANOTHER ONE THRU YOUR SITE BUT I WANTED SOMEONE TO CHECK OUT COMPLETE TAX COMPANY BECAUSE I BELIEVE IT IS NOT RIGHT
1028500	Hello, I am in the process of sending our completed tax returns that have been processed through the IRS Free file program. Specifically, through TurboTax free file. But, TurboTax is charging a 19.95 processing fee for each return sent via e-file through them. Yet, on the same web page and throughout the entire tax information entry process it states that it is free. Then at the very end when it asks if you want to e-file and you say yes, the next page charges you a 19.95 fee for processing. This is in addition to the 19.95 fee that they are charging for the state tax return. Would someone please investigate this and get back to me, because at this point, we are planning to file by mail instead of e-file because of that 19.95 fee per return.
1028612	Why is it the IRS does not provide direct tax preparation? You provide web sites where a taxpayer can go to have their taxes prepared, but the time has come where you should provide the service.
1028428	I am so disappointed with the selected links to efile my return that you offer on your website. they advertise they will efile your return for free if your agi is under a certain amount-which i qualify for. after i spent nearly an hour of my time entering information, they claimed they would not efile it after all, without me paying a fee to them first!! for tax year 2002, i efiled for free-unfortunately i dont remember who that was with. i just tried two other links offered, and the same thing happened, after wasting over another hour of my time. these companies should be fined or reprimanded for misrepresenting themselves in this manner. thank you for allowing me to share. kristen
1028429	IRS should be ashamed to pretend that there are free tax filing services. Everyone is a trick that has you spend hours putting in information ---- to charge for something in the end. Shame.
1021711	To Whom It May Concern, I filled out my tax returns with H&R Block on January 30th. I accessed the site through the IRS link, which stated that the efilng would be free of charge. However, after going through the whole process towards the end it claimed that I would need to pay a charge of 19.99. I was confused as to why the provider was charging me when it had initially stated that it was free. My name is Sui my phone number is and email address is VBallochoa17@aol.com. I believe I have provided all the info necessary and will be looking forward to a correction of this issue. Thank you. Sincerely, Sui
1021909	Are the 'free online filing' web sites a good idea? I have used the phone system in the past and that worked out well. Last year I filed by the Internet but do not remember having to

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Reference #	Question
	choose a service provider to file through. I am unsure as to the safeness of this new approach to Internet filing. Can you offer some advice? Donna

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Reference #	Question
1048252	dear sir i have some issues with filing my taxes on the free efile systemthere are some forms it will not allow me access to how can i cancel or start over? i need to get the extra child credit and it keeps giving me child care credit, i cannot find the child dredit on the quick tips either. can i start over or cancel please reply quickly. sandra
1047460	yes i registered under 32.000 a year free efile on my taxes and the system wont let me log back in to finish? what do i need to do?
1048958	Hello, I recently tried to file my taxes electronically with TurboTax through the free file alliance on the IRS's website. I went through all the work of completing my return on the computer and then went to file and TurboTax was instructing me to pay \$19.95 for a FREE service!!! I would love to e-file in order to save trees, postage, and time and effort for both myself and the government, however, I refuse to pay for the right to e-file. Especially, when the service is supposed to be free and advertised as free on both IRS.gov and on the TurboTax website. Thanks, Craig craigsparks@mchsi.com
1047331	For 2003, I was able to successfully and conveniently free file my daughter's federal taxes using the appropriate free file link to H&R Block from irs.gov. However when I tried to do this again for 2004, I was unsuccessful. Despite my linking to the supposed H&R Block free file site from irs.gov, as before, I was continually linked to a fee based site. I decided that maybe the option to free file would come later as I worked through the tax software - but it didn't. I reported this problem to H&R Block Customer Service with my message and their reply copied below. After thinking about this, I began to wonder if H&R Block was taking advantage of prior year users by planting cookies in our PC's (purely speculation on my part). However, my reasons for suspecting this are: I have received three e-mails from H&R Block starting 1/13/05. These contained the username used to file last year. They also each stated that a link within them "must" be used to determine whether I was eligible for federal free filing. I never tried these links because I was of the understanding that linking from the irs.gov site was the only safe way to go. (I am willing to submit these three e-mails to you if you wish to see them.) My Windows XP Service Pack 2 operating system (using Outlook Express email client) flagged each of the above email messages as trying to identify my computer (presume via cookies). I did acknowledge and allow "information exchange". When I tried to link to the free file site via irs.gov, I did get a series of screens flashing up and messages about pop-ups being blocked and the like. As noted in the copied email below, one of about four times I did link to an H&R Block site that actually appeared to offer free filing, but when I entered my personal information, it reverted me back to the fee only site. I find it interesting that in the email response from H&R Block, they give a free file URL which "must" be used, rather than acknowledging the link from irs.gov. I may or may not be on the right track, but something just doesn't seem right. I suppose if you happen to get enough complaints about this, it might be worth investigating. For information only, I was able to use the TurboTax site to free file my son's taxes last year and then again this year - with absolutely no problems. They even have a "watermark" on each display page stating that the free file software is being used.
1049337	We just tried to E-file using the "FREE E-File option from H&R Block following the instructions at this site and at filing they said we would be assessed 3%+/-?? What is free about this service?
1050615	I just spent a half hour attempting and failing to answer one simple question that applies to tens of millions of people: what (if any) e-file company gives free filing for those who must file a 1040 WITH Schedule D - Capital Gains and losses. For a software engineer and computer-expert guy to not be able to answer such a simple question from your site (or H&R Block's) implies that millions of people are still using paper for simple lack of information (and the confusion caused by the IRS creating a tower-of-babel gravy train for a gazillion of contractors to do their e-filing front-end work instead of doing it themselves). Using paper yet another year, --jcn

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Reference #	Question
1050871	Hi, everybody is telling me to file my taxes by e-file and that it is free could you tell me how to go about it I went your site and click on e-file but all the ones I click on says you have to pay could you tell me the steps on filling through e-file.
1050892	The e-file tax site for picking a free tax filing service using your tool to select the service by use of the information I provide is just going back to the same screen each time I complete the desired blanks. It is not referring me to any service?
1051167	I am concerned about the way your website states that the online tax filing is free, and when a taxpayer gets to the end, there is a \$19.95 fee for Federal and \$ 24.95 fee for the state. Can someone help me with this ?
1050946	Site just just keeps coming back to this same screen, each time I submit. This site is not working: Guide Me To A Service Use this tool to help choose a company and service from our listing. Complete all the questions below, then click the submit button. A list will then be displayed showing only the services for which you may qualify. If you are uncertain about your answers to the questions contained in this Guide you may want to view the complete list of companies and their services. The accuracy of the results is dependent on the accuracy of the answers you provide. For more information on each of the criteria below, click on the blue highlighted links. Important Note: This information is being used for purposes of determining the services for which you may qualify. The information is entirely anonymous and will not be retained or used for any determination of tax liability. IRS policy prohibits the use of permanent internet cookies. Please complete all of the following statements: I am years of age. If filing a joint return, my spouse is years of age. My estimated 2004 Adjusted Gross Income is \$.00 My state of residence is I received (including my spouse) this many 2004 IRS Form W2(s), Wage and Tax Statements. I plan on filing either Form 1040EZ, Form 1040A, or Form 1040? I may be eligible for Earned Income Tax Credit. Yes No Did my spouse or I receive Military pay in 2004? Yes No Do I expect a refund? Yes No If you answered yes to the previous question please enter the expected 2004 refund amount. \$
1052008	I used the free on-line turbo site and when I did not choose to pay to file my state taxes they froze my computer up with a note "updating". It has been about 20 minutes now and I still am waiting. This should not be allowed, if they are going to offer the service free, then they should complete the service. I can't believe they take this long for paying customers. I think the public should be warned.
1052050	The free tax preparation software is very confusing to navigate for those e-filing for the first time, as are the large number of outside services and trying to figure out which one suits your needs best and which you can use without paying a filing fee. I think it would serve the IRS better to develop their own, free to use, submission system for all tax preparers instead of routing users to services that may have hidden fees.
1051506	Regarding your free and EASY tax service ESPECIALLY e-file. Very misleading .Wanted to simply save time and detail and file (in my case)a 1040 ez form. Instead the competative site for filers requires one to go through a list of potential tax agencies, and then through a convoluted maze -- giving out MORE personal information to someone not related to IRS. IRS advertises "easy and quick to file online", but, in fact, took so much time and frustration that it's not worth it. I ended up mailing hard copy because of this -- and especially for the fact that the preparers were NOT the IRS; they were some other group(s) who required me to sign up with them and give more info. Seems such a long way to go with the 1040 ez form used. I had planned to file and be acknowledged by computer rather than mailing and waiting for results. Unfortunately , taxpaying citizen..KRC
1052532	I recently used fileyourtaxes.com. I strongly recommend you do not promote using this service in the future. In all the years of filing electronically, I have never had as much trouble filing as I have with this service. My refund has been delayed almost a month! fileyourtaxes.com requires that you PAY for on-line help, but they don't tell you until you have completely finished your tax return. THEN, they send back messages saying you

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Reference #	Question
	<p>have entered data incorrectly. I checked the federal tax ID for all the documents I sent and all were correct. I think they are trying to prey off people trying to file taxes on their own. I know the IRS works hard to maintain a pristine image and good reputation. However by promoting companies like fileyourtaxes.com, you are doing yourselves a disservice. Sincerely, Renee Davis SSN: 287844507 PS: This is the correspondence I sent to fileyourtaxes.com: In an attempt to correct my W-2 information (this site is very vague in explaining errors), my income (W-2) was completely wiped out of the system. Now it shows I owe money when I should be getting a refund (\$1295). I did not intend to submit the information, I was still editing it. This needs to be corrected ASAP. This will be the second delay. I have serious concerns about using this website in the future. I dont think it's appropriate that you try to profit by making your site difficult to use and to make corrections. I will not victim to your attempts to make money off me. I work too hard for people like you to prey off me. Fortunately I saved the draft on my hard drive, if necessary I will complete the form manually. There's more than one way to skin a cat! CC: Internal Revenue Service</p>
1052262	<p>Hello, I tried to e-file using TurboTax, I linked to the company's website from the IRS's free file alliance page. I tried several different times on Sunday, February 20, 2005 to e-file for free and each time TurboTax tried to charge me \$19.95, when both their website and the IRS's website had said that it would be free. My concern is that the IRS and other companies are advertising ways to e-file for free and in actuality these companies are not allowing free e-filing. I think e-filing is an excellent idea, because it reduces paper waste and is more efficient in several ways, however, the companies are advertising it for free and then after you go through the work of inputting your information they are trying to charge \$20. I have not contacted Turbotax, I wanted to contact the IRS first, since I linked to TurboTax's website from the IRS's free file web page.</p>
1052605	<p>I selected, via your website, to efile my taxes for "free" through the H&R Block website. I was definate that I went directly from your site to their site that stipulated it was FREE efilng for one federal return. I spent a couple of hours completeing my taxes online, when I reached the end and before I could file online I was informed the minimum fee to file was \$19.95? I emailed and reached their live support services regarding this fee and I was logged off as soon as I questioned the fee. I attempted to file again tonight and was again unable to file without paying the min. fee. I believe with my income being what it is I certainly qualify for free filing. Please explain why this site is advertised as a free service, on your web page as well, yet after you waste your time you're slammed with a fee?</p>
1052810	<p>I would like to report an problem with the TurboTax "Free federal online tax preparation and e-filing for all taxpayers. No restrictions. Everyone qualifies." When I accessed TurboTax from the IRS.gov site (linked directly) and spent hours on my return, I found that I was going to be charged to file my federal return because I did not meet an income threshold. Both the IRS's and TurboTax's website indicates that TurboTax offers free online tax prep AND e-filing for ALL taxpayers. Frankly, I am upset by spending all the time I have using the product, only to find that I now need to re-do everything using another program offered by the IRS. This is clearly, false and erroneous advertisement. I expect that this error will be corrected immediately, so others do not waste their time with TurboTax. Thank you for your time and attention.</p>
1053478	<p>I entered Taxact via the IRS site but they will not let me complete my return until I pay a fee. There is not suppose to be a fee. Can you assist? Thanks.</p>
1053402	<p>I filed my 2004 taxes via IRS free e-file program (complete tax), I need to know the type of tax form that was filed (was it a 1040); if I filed a 1040 was I eligible to file a 1040, 1040ez, or 1040a, I was able to claim lifetime learning credits; I need to know my adjusted gross income for 2004 on the IRS form filed; the total income tax for 2004, exemptions, also from the IRS form filed for me. My name is Heather , My social security , my address is , my phone number is 7193290623, my marital status is single, my state electronic tax</p>

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	return was accepted by ; my federal electronic tax return was accepted by the Austin IRS processing center on 2/8/05, I had them deposited into my savings. Thanks.
1052328	I used your free file tax service, accessed H&R Block from your website and even though my AGI was less than \$13,000, they charged me \$29.95 for their service. Please ask them to be more up front and straightforward with people and if their service is not free to people with an AGI less than \$28,000, they should not offer it as such on your website. The H&R site I accessed said "Standard" evn though I accessed it from the IRS website. No where did I see anything on H&R's website that asked me to sign up specifically for the free service, yet this is what they said I must have done in order to get it. I'm incensed.
1053015	I just want to relate my unfortunate mistake upon navigating thru the IRS e-file. I went in thru the site: www.irs.gov and clicked on the e-file icon just because it stands out more than the free e-file icon. That took me immediately to the tax engine site and thinking I was on the free e-file I started plugging in my information until the last of the program, that's where I learned that it would cost me \$24. For a person that earns a whole lot of money, I guess that would be ok, but I just make enough to live decently. I contacted their customer service describing my mistake hoping they are honest and make things right. I'm just writing hoping you can assist me or enlighten me with this matter. Thanks for hearing me out. Next time I'll be more careful and slower
1047883	my tax preparer has offered me an advance loan, the loan is exclusively for properspective taxpayer who will file their taxes, this early loan was offered because we were previous client. Tax Preparer had advised that if we would let them prepare our tax return this year, this advance loan will be approved, and any outstanding balance due for the offered advance loan will be offsetted against our tax refund once the return is completed and refund is expected.. Is this a legal procedure for a tax preparer to offer such advance loan.. Is the action taken by tax preparer and bank (creditor) can be considered a procurement Fraud?? paul
1048167	I went to your web site to file my taxes but had to use a company you recommend, or refer taxpayers to. Turbo Tax was the one I tried to use. I wanted you to know that I have decided not to use them and to just file a paper form by mail. Today I received an email, from them, reminding me to finish my electronic mail tax return, because the cost of a refund will go up through them. I never asked them to send me the refund I am to receive. I figured the IRS would send it. They either misrepresent themselves or something is not right. I have emailed them a reply , asking them to take me off their contact list. I told them I am not using their service , nor did I request them to secure my refund. Can you check up on them. It is possible people are being roped into things they do not want. Either offer a free filing or be up front and tell us there is some catch. Thank you for your time.
1049109	Hi, You have a Link for H&R Block on Your Website for Free Tax Preparation. Well, I had finished the Forms on the H&R Block Website from Your Free Tax Preparation Listing. And after finishing it, they are now trying to Charge Me for using Your Free Tax Preparation Link. Please, help me with this Problem I have Incountered. Sincerely, Tax Payer
1054757	I attempted to prepare my 1040 on two free services through your website. First I tried TurboTax, but they would not process unless I paid them. I sent them the following e-mail feedback: Your "FREE" tax preparation is not Your "FREE" tax preparation is not free. This was based on your agreement with the IRS in 2002. When consumers are expected to pay for "free" services that's called fraud. This same message is being forwarded to the IRS.free. This was based on your agreement with the IRS in 2002. When consumers are expected to pay for "free" services that's called fraud. This same message is being forwarded to the IRS. Then I tried the H&R Block free site, which was actually free, but could not print or send my return electronically due to a "Runtime Error." Now H&R Block has all my information and I have nothing. This was a monumental waste of my time and a cruel joke. I will never attempt to e-file again! In the future I will waste as much paper as I

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	possibly can. This is just more IRS incompetence
1054247	I recently tried to file my taxes electronically with TurboTax through the free file alliance on the IRS's website. I went through all the work of completing my return on the computer and then went to file and TurboTax was instructing me to pay \$19.95 for a FREE service!!! > > I would love to e-file in order to save trees, postage, and time and effort for both myself and the government, however, I refuse to pay for the right to e-file. Especially, when the service is supposed to be free and advertised as free on both IRS.gov and on the TurboTax website. > > Thanks, > > Craig > craigsparks@mchsi.com >
1056343	I am trying to use the free prep services that are linked from your site. After filling in all the info, the TurboTax site asks for a \$19.95 payment. Is there a promotion code that I need to enter to get this for free? Thanks, Jennifer
1056362	I have encountered technical difficulties with Online Taxes.com, one of the free filing companies. After alerting the company to the problem, they promised me a quick resolution. However, it has now been about 24 hours and I have not received an email response from them as promised. Also, their web site's Customer Service does not provide an email to reach them, and they do not have a toll free number to call. I think these problems should be corrected immediately. I have put two nights worth of work into doing my tax return and would like to get it completed but have run into this roadblock. Please respond as quickly as you can to this.
1056436	I went through the official IRS website to access "free" e-file companies that I could use to prepare and electronically send my federal tax return. I chose TaxEngine and completed my return to find out that I was asked for payment in order to e-file. I sent an email to their message center and received a reply that I accessed their website independently of the IRS' website. There were no other instructions from them (TaxEngine) as to how I may still e-file "free". They are mistaken. I did go through the IRS' website.
1055597	I just finished preparing my federal and state returns using Turbo Tax' Free File program, and I must say that I think it is misleading. Although, it does tell you that it's free to file your federal return, most states require that if you file your returns electronically, both the federal and the state returns both must be filed electronically - and Turbo Tax doesn't tell you there is a fee for filing the state returns until you've completed the returns. I was not allowed to print my returns and mail them without paying for the state return. So, in the end, it would have been cheaper for me to do my own returns on paper - doesn't this defeat the purpose of encouraging electronic filing? I don't think I'll file electronically next year!
1056524	Dear IRS Monitor of the Free Filing Systems-- I have encountered technical difficulties with Online Taxes.com, one of the free filing companies. After alerting the company to the problem, they promised me a quick resolution. However, it has now been about 24 hours and I have not received an email response from them as promised. Also, their web site's Customer Service does not provide an email to reach them, and they do not have a toll free number to call. I think these problems should be corrected immediately. I have put two nights worth of work into doing my tax return and would like to get it completed but have run into this roadblock. Please respond as quickly as you can to this. Sincerely, Tom Do you Yahoo!? Yahoo! Search presents - Jib Jab's 'Second Term'
1056772	I heard on the radio that I could use turbo tax through the irs.gov site free of charge. But I can't find it. Can you give me the correct address.
1057120	Did you know that Florida has no state income tax? You should include a box that indicates that. Otherwise, I can't believe you people do all this for free! Thank you SO MUCH! I truly appreciate this service. ~ Marcella
1055745	Your site states these companies file free federal I filled out the forms for "TAX ENGINE.com and stated I did not want to file STATE thru them (Their program failed to give me state credit for US BOND Interest and for Detroit TAXES paid, so I did my State Taxes MANUALLY) Their error in State would have cost me approx ^\$60 to State of MI

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	Yet the so called FREE FILE wanted to charge me \$10.00 to file STATE even tho it was NOT REQUESTED and would have been WRONG!! Therefore it appears they are using FALSE ADVERTISING with your backing since they are on your site with their false advertisement PLEASE HELP Thank You in advance, Dan E-Mail "drbeliu812@aol.com
1057574	i just filed online with express tax refund software and felt that this was very deceptive and I am quite sure that i forgot to submit information. is there anyway to stop this filing and then i can resubmit the file? i already called the express tax refund number and they were not able to help me. please h e l p!!!!!!!!!!!!!!!
1057714	filed i just filed online with express tax refund software and felt that this was very deceptive and I am quite sure that i forgot to submit information. is there anyway to stop this filing and then i can resubmit the file? i already called the express tax refund number and they were not able to help me. please h e l p!!!!!!!!!!!!!!!
1050510	I found the advertising of free filing misleading. I used the TaxEngine.com website which stated my filing was FREE! however, when I tried to electronically file my return, I got caught in a loop which required me to pay \$28 for the bank's trouble. I paid \$9.95 last year using TaxAct and was under the impression I could complete the entire process including electronically filing for free this year using 1 of your FREE websites. I'm extremely disappointed in this electronic filing and ended up doing my return by hand. I got different results by hand than I did on TaxEngine.com. kinda made me wonder..... the thing that really irked me is that you must complete every step of the return until you reach the electronic filing for the site to mention its fee. I comleted the TaxEngine.com return twice with the same result and finally gave up in disgust. if there's going to be a bank charge for their "trouble", than that should be stated before you begin your return, not after you've completed the entire process and may decide to pay the fee just to finish up. what a rip off! thanks for listening. next year, I'll probably just do it the old-fashioned way altho I like the idea of receiving my refund sooner, I don't like be held up by hidden banking fees.
1057578	Tax\$imple.com is an awful site, it is very difficult to navigate and is user hostile. I will try another site, thanks for your patience.
1056317	What happens if I begin to figure and file my taxes using one of the free on-line services at irs.gov and need to stop in the middle of the process? Where is my as yet incomplete electronic tax file stored/saved? On my PC or out there in cyberspace somewhere? If it is the later, where exactly will it be stored and how secure is that location? Please advise...thanx, Sarah
1057802	I have a complaint about TurboTax. You list it as a service that will prepare the tax return free. After completing the on-line computations, it says, "Before filing your return electronically OR BY MAIL [my emphasis], please pay the following preparation fees: Federal Service fee FREE. But then it says: To print your returns for filing: PAY for using TurboTax, then you will be able to print your returns. How free is this service if I have to pay for printing out the forms? How can I file my return by mail if they won't print out the forms for me? What exactly is going on here? Mary
1057977	I have a complaint about FileYourTaxes.com The following is a copy of an email I sent them. "Let me give you more details than I provided in my last email. I DID go through www.irs.gov I clicked the link "Free File" Then the "Start Now!" button. From there I read about your site and it states: "FileYourTaxes.com Free Offer and Company Information: FileYourTaxes.com is offering Free Federal tax return if you are living in Arizona, California, Delaware, Georgia, Illinois, Maryland, Michigan, New Jersey, New York, North Carolina, Ohio, Oregon, Virginia, Wisconsin (as verified by the state you use for your mailing address at the top of your 1040 tax return), and/or if you were 18 years age or under on 31 DEC 2004, regardless of your state of residence" Since my mailing address is Wisconsin, that confirms I am a WI Resident. Then, I TOOK the link to your site. I then went to a page that had a "Leave IRS Site" button, which I took and arrived at your site http://www.fileyourtaxes.com/alliance I then clicked the "Begin A New Return" link, entered

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	my information including my password from last year. When I got to the end of the process, it said I had to pay. At this point, I did NOT submit my return and better not be charged by your site. From the instructions I read, I did every thing right. You need to fix your system. I will be sending a copy of this to the IRS when I got take them to see if I can still tele-file. Jeff
1057915	hello, I was wondering I would like to take advantage of your free turbo-tax service. But am I required to e-file when I'm done with turbo-tax or can I print it out and then send it through the mail. thank you for your attention for my question. Michael
1058386	The TurboTax web site is very misleading to file income tax. I checked the field to see if I qualified to have both my federal and state tax completed for free. It said I qualified. I started the process and got to the state requirment and then it said I had to pay 24.95 for the state filing. This was totally misleading and the system should never have stated that I qualified to get both free.
1058754	I do not like your website,you took my money and do not provide services I need. I want my money back.
1058985	while viewing your free efile list,when I went to their web sites they're > charging a fee.I almost gave up till I went to H&R Block,there's states > it's free.How come? The others are listed as Free when they aren't? I also > have downloaded pdf 1040 ez & may just mail that in. I have not received > my Federal EZ booklet this year. I also have moved from Thanks, Anita
1061226	I Danielle Dickerson would like not to continue filling my taxes with TurboTax, there plenty of errors as far as calculating my income, and areas where I would click no, it would click yes. I have filled my taxes with one of our neighborhood tax preparers due to this. So please disregard my tax info, and please do not e-file my info. Thank You
1061150	I went to www.irs.gov. all i see is information. How do i file? this is frustrating
1061330	I have worked for the government for close to 30 years and this looks like another gift of my money to some politically friendly group of businesses. I am capable of completing my own paper tax return and mailing it off for \$.35. So why then if I choose to send it electronically it costs me nearly 100 times that? From what I have heard e-file saves the Gov. money. Why should it cost me \$ to save the Gov. money? It seems so very simple to me. Put the forms on a website, we can enter our figures and click, you've got our returns. Why did we have to create an industry to simplify something so simple? This requires an answer.
1061833	I am very disappointed in this website and the links provided for free e-filing. I selected TurboTax for my 2004 tax return because it said it was free to prepare and file taxes through the link on www.irs.gov. I spent almost 4 hours entering all of my information and answering all of the questions, only to be told there is not only a \$24.95 fee for filing state taxes, but ALSO a \$24.95 fee for filing the FEDERAL taxes, the very service that your website claimed was FREE! Since I have been so completely inconvenienced because of your mistake, I feel that you need to honor the "free e-file" claim. Afterall, it was in writing on your website. I have printed the pages for my records. Please get back to me immediately so we can resolve this issue. I should have been able to file my taxes as of 8:00pm on 2/22/05, but am now awaiting your reply. Each day that I must wait is yet another inconvenience and disservice to me, a misled customer. Please feel free to contact me via email or phone. I will await your prompt response. Megan
1061860	I am confused as to how to access the Free Filing System. When I click on the name (TurboTax) it says I am leaving IRs.gov website.... Doesn't that mean that I will get charged. How do I go to their website without getting charged to file my income tax??????
1061882	My husband and I filed a return with CompleteTax last year free of charge through the IRS Website because our gross income was under \$28,000. This year I went to their Website thinking that it would again be free since we had filed with them last year, but after

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	entering all our information find that we are being charged \$32.95. I have e-mailed them but they told me that in order to get our tax return prepared free of charge we should have entered through the IRS Website. Is there any way we can get this fee removed as our gross income was only \$12,017. Dorothy
1061909	Just wanted to mention that your service selector for tax preparation seems to be broken. I filled out all fields and clicked submit to get my recommendations but instead it just reset the page and cleared all the fields. I think the "submit" link must be confused with the "clear" next to it. -thanks
1061019	My question is, where do I find a listing for free tax preparation sites in the following counties? Niagara, Alleghany, Orleans, Genesee, Chautauqua, Cattaraugus, Wyoming.....Thank you, pma2
1062071	I just spent the last hour entering data into the "FREE" Turbo tax forms, > only to have it ask for \$19.95 for the state filing when I finished. It > does not give me the option of Fed only, so THATS NOT FREE!!!!!! LIAR!!!
1062177	I went onto your site and got the companies list for "free file" and one company says it will cost if I don't go through your site; but where is that place where I click??? it still pops up, "I am leaving the IRS site" to the other company's site (which will cost me). Thanks
1062339	I have tried THREE of the "free" online tax services that the irs.gov site offers: 1 of them never asked for more money, but did not accurately calculate two items (taxable SS income and hybrid vehicle credit). (TurboTax) 1 of them did not provide a way for me to claim hybrid vehicle credit, then asked me for \$ to file. (HRBlock). 1 of them suddenly bumped me off their site AFTER I had entered personally ID info, including SSN, and when I tried to re-enter, asked me the same info again (eztaxreturn). I won't try any other offers from your "FREE" online filing. Sorry that I'll cost us more money to file by paper, but I am thoroughly disgusted by your offers. I will be copying this to my elected reps in both Congress and Senate. I have been working at this for several nights & hours. To make you feel worse, I was widowed last year, so I'm dealing with filing as a married couple, and he's been gone too long.
1062518	I wanted to alert you to the fact that the site...taxengine.com is not offering the free federal return even though it is on your list. They say they do, but when you get ready to finish, they expect 29.95. I have used the HR BLOCK site and it worked fine, my federal was free, even though I paper filed and then my son used HRBLOCK, no problem, but my other son used the tax engine.com site and they wanted money for filing. The reason they gave was that the IRS wants everyone to efile, not mail in paper. SO... if we choose to print the return and file ourselves they are charging. This is fraud. Hr Block was free for paper or efile. Thank you for your help in this matter.
1063214	Wanted to inform you that your recommended e-file company, FILEYOURTAXES.COM, is not very reputable. I attempted to file my federal >1040 return with them for which they wanted to charge me a \$27.75 fee even >though I am a Wisconsin resident. According to your site information, >this company would file the federal tax return for free for, among other, >Wisconsin residence. For some reason they are not honoring that >commitment. I would suggest removing them from your site pages or at a >minimum remove the information indicating they will file the federal >return for free for certain states.
1063459	I have been in contact with FILEYOURTAXES.COM and am working to resolve the >issue. The point of my email was not to ask for your help to resolve my >dispute but to inform you that your site contains erroneous information >with >regards to this company in that they apparently DO NOT file the federal >return for Wisconsin residence for no charge. Please consider my comments >to adjust the information on YOUR site to no longer inform taxpayers that >this company will file a federal return at no charge for Wisconsin >residence.
1063073	I completed my taxes online using the H&R Block software. I reached their site via the IRS.GOV site and expected there to be no charge. After I completed my taxes I was told

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	there was a 29.95 charge even though I had not done my state taxes. When I called H&R Block I was told there was nothing that could be done about it except going to another site and repeating the whole process. I did not feel confident I would not be charged again so I went to Turbo Tax and completed my taxes with no problems and no charges. The representative also said they many people have reported this problem. I think they should be removed from your list of free providers. Thanks, Barbara Steinhauser
1064717	I would like to make a complaint about e-smarttax.com which I was referred to through this site. I spent several hours filing my tax return on their system thinking that it was free only to find out at the end that they were charging me \$9.95. Upon investigating I found that they have no system with which to help people except an extremely inadequate FAQ. They also have no way to contact them except to make a comment or send a question by e-mail if you have trouble logging on. I finally worked out that they charge people for importing their 2003 tax data. This is an option at the start of the process that says nothing at all about a \$9.95 charge at the actual place that it gives you the option to import your 2003 data. It only tells you that its a feature of the premium filing option somewhere else on the home page, which given I wanted to free file, I did not read. This site is running a scam by telling people its free and then giving you options which cost you without telling you the option incurs a charge. You only find out at the end after you spend hours going through the whole thing. They probably figure that by the time I get through the hours of filing at the end I'd just pay rather than do it again somewhere else. It's dishonest, It's a scam and they wasted my time. You should not be recommending them.
1062927	WERE IS THE START NOW BUTTON
1065003	I recently accessed your freefile website and gave the specifics of what I would be submitting to file. I was guided to eztaxreturn as an agent to use which had no restrictions. When I finished the forms, it asked for a credit card #. When I asked why, I was told it was because I had more than one W2. Isn't that a restriction??? I don't get it!
1065393	I have found your website to be extremely upsetting. I have tried to get into the actual part to efile for 30 minutes and keeping getting the run around. I suggest you make a more direct link for next year. I am giving up. Please make your program more user friendly for next year!
1065600	I have logged onto the web site- where is select: Start Now" Where do I begin my tax form?
1065656	I am very unhappy with HR Blocks bait and switch on the free tax filing. I started from your web site and ended up with them trying to charge me. the whole site is misleading and is very hard to get the free filing
1065659	How did TURBOTAX get on the FREE E-file list? The FEE is \$24.95 whether you file only a Fed or you file both a Fed and State ... Whether you E-file or mail! Another government bureaucracy. Ridiculous!!
1065773	Dear sir or Ma'am, I used your link to onlinetaxes.com and at the end it attempted to charge me. I live in Texas so the state tax issue did not apply. I tried to contact their assistance center and received no response. I will file through the US-Mail but thought you should know about this situation as all links to this site said I could prepare and file free. Thanks for your time, Glen A. Blanchard
1066083	I am sending this e-mail as a result of using a free-file access through your website. I used the TurboTax link because it listed "everyone qualified" and "no restrictions". This is not true. After I finished with my taxes and was beginning to print the electronic filing instructions for my state's filing process, I wanted to finish up my taxes for the year. To my surprise, I could not print a copy for my records until I submitted payment of \$9.95 plus tax, since I was informed that I "did not qualify for the free file program". No where under their company description did it list any salary limitation, in fact, it specifically stated "everyone qualifies" and "no restrictions". When I contacted Turbo Tax, I was directed to their Home page, not the link that I followed from the IRS web page. You should put a warning for

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	clients to proceed with caution!! By the way, when I electronically filed, I was originally only charged to file my States tax form, not the Federal. Just wanted to let you know what kind of scammers you had listed on your web page.
1066087	I have no idea where to report this. I am concerned about the ethics and validity of one of the Web sites you have linked for e-filing returns. The Web site is 123easytaxfiling.com. Please refer me to the correct contact. Scott D
1066194	I am trying to use the Free turbo tax, and I continually recieve a note stating that an Error occured and I need to contact you.
1066195	I understand that free versions of TurboTax and TaxCut are available through the irs website. I can't figure out how to access these programs for downloading. Please advise where I find them on the irs.gov website. Thank you. Martin
1066207	I can't find a real free tax prepar and file
1049144	Dear IRS, This year my husband and I thought we would try e-filing our return. We were under the impression from your website that we could FILE FOR FREE. We filled out the questionnaire and up came a list of companies which would do the job for free. We went with H & R Block since it was a recognizable name and the first one on the list. Well, we filled in the information and when we were about to send, it asked for payment. This was not what we thought it was. Please clarify in your website that using the company's program is free, but actually sending the information via e-file, is certainly not free. I don't think we will try this again UNTIL...you, yourselves have a direct link FOR FREE that people can use to send it in. We really feel that we were mislead by your website and it was further compounded by the H&R Block website that stated the same thing: free preparation and e-file. As a side note: the H&R Block people in local offices are totally ignorant of the whole e-file process and really put pressure on for us to come to a local office and pay for their services. They too will be hearing from us. At least it will make us feel better that we said something...not that it will change anything.
1067764	A friend of mine tried TurboTax on line and it would > not let him file or > print his Federal tax form without paying for the > state return. If this > is true, it should be stipulated on your website.
1067799	I found navigating thru your free file steps difficult, as it kept leading me away from the IRS site to the fee based options. Suggest you improve this process for future tax years.
1067161	I was told that this web site offers free Turbo Tax software (for the individual) but I cannot find it. Can you point me in the right direction? Thank you
1057712	PROBLEM: I used TurboTax to efile my federal tax return. I accessed their website via OK Tax Commission, and the free file alliance. However, they want to charge me a fee for using their program. When I finished my tax return, the program told me I would not be charged a fee. So I elected to go ahead with the process and received an email saying my tax return had been accepted by IRS. When I returned to complete the processing of the electronic filing, the program is now trying to charge me a fee. I am unable to use another service because my efile had already been accepted by IRS and when I try to use a different service, which is not charging me, it shows my SSN has already been submitted. QUESTION: Is there a way to delete the first efile, so that I can use a service which will not charge me? I cannot do it from the TurboTax website. Otherwise, I will just have to complete the return on paper and submit it.
1059283	Dear IRS, Your Website is great; easy to use. I chose free e-file and then selected Turbo Tax. Turbo Tax then charged me \$24.95 to file the Federal and another \$24.95 to file the State. I was under the impression that there would be no charge for the Federal. Can you please explain this to me? Thank you, Melissa
1068476	I wanted to use the Turbo Tax program. I followed the instructions given that gets me to this program but am stopped by statements that tell me that my browser is incompatible. Nothing happens when I click on the boxes that are apparently intended to upgrade my program, ie. Microsoft Explorer. I asked a neighbor who is more experienced than me, to

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	go thru the steps that take us to Turbo Tax. He had the same problem. What is wrong.
1068259	Did I get it right? I thought I could e-file for a federal tax refund if I used TurboTax; your website said I was eligible to get it free. I answered the questions on-line (but cannot file without paying?)
1049367	Hello, I can't figure out how to access a free tax filing through your site. Everyone I try from the FREE FILE ALLIANCE page I get the page that says you are leaving the IRS site. I checked H&R Block more detail and it said it was free from the IRS site but there was a fee if not accessed through this site. How do I connect through your site? Thank you
1049397	I have tried very unsuccessfully to access a bunch of the free e-filing companies sponsored by the irs websight. i have not been able to get through to any of them tonight. what's up with this???
1049490	Dear Sirs: For 2003, I was able to successfully and conveniently free file my daughter's federal taxes using the appropriate free file link to H&R Block from irs.gov. However when I tried to do this again for 2004, I was unsuccessful. Despite my linking to the supposed H&R Block free file site from irs.gov, as before, I was continually linked to a fee based site. I decided that maybe the option to free file would come later as I worked through the tax software - but it didn't. I reported this problem to H&R Block Customer Service with my message and their reply copied below. After thinking about this, I began to wonder if H&R Block was taking advantage of prior year users by planting cookies in our PC's (purely speculation on my part). However, my reasons for suspecting this are: I have received three e-mails from H&R Block starting 1/13/05. These contained the username used to file last year. They also each stated that a link within them "must" be used to determine whether I was eligible for federal free filing. I never tried these links because I was of the understanding that linking from the irs.gov site was the only safe way to go. (I am willing to submit these three e-mails to you if you wish to see them.) My Windows XP Service Pack 2 operating system (using Outlook Express email client) flagged each of the above email messages as trying to identify my computer (presume via cookies). I did acknowledge and allow "information exchange". When I tried to link to the free file site via irs.gov, I did get a series of screens flashing up and messages about pop-ups being blocked and the like. As noted in the copied email below, one of about four times I did link to an H&R Block site that actually appeared to offer free filing, but when I entered my personal information, it reverted me back to the fee only site. I find it interesting that in the email response from H&R Block, they give a free file URL which "must" be used, rather than acknowledging the link from irs.gov. I may or may not be on the right track, but something just doesn't seem right. I suppose if you happen to get enough complaints about this, it might be worth investigating. For information only, I was able to use the TurboTax site to free file my son's taxes last year and then again this year - with absolutely no problems. They even have a "watermark" on each display page stating that the free file software is being used. Thank you for your attention to this matter. Gary The following is copied from my e-mail and H&R Block's response: In your message submitted 02/19/2005 you wrote: I tried to use your free Federal on-line tax preparation and filing service by accessing it from the IRS site - which I was able to do successfully last year (for my college age daughter Laura Knox). However, when I access it, it appears to bring up the fee based versions - can find nothing about the free Federal e-filing. I closed my browser and repeated the cycle four times. Sure enough one time I got a web page which indicated the free federal filing. However, when I tried to proceed through it, I was launched back into the fee based service. The only clue as to what might have been going on is that the Windows XP Service Pack 2 operating systems was throwing up warnings about blocking pop-up ads. I disabled this feature, but couldn't tell that it helped matters. Anyway, I tried the free federal preparation and e-filing services of some of your competitors for other family member taxes, and did not experience this problem. I don't know if the problems I was experiencing were on "my

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	end or your end", but currently I am a rather dis-satisfied Customer since I spent over an hour working through your very good tax software - but to no avail (your cost for the software use and filing is more than the taxes that my daughter owes). Thanks for your consideration of this matter. Gary
1067702	I came to USA on L1-A visa (temporary worker) in Sept. 2004. According to my research I am supposed to fill in 1040NREZ for filing my returns. The information on page http://www.irs.gov/app/freeFile/jsp/index.jsp regarding e-filing. Though many of the sites listed do mention.. "Free federal online tax preparation and e-filing for all taxpayers. No restrictions. Everyone qualifies" to my disappointment, the ones I tried (Tax net and HR Block) do not offer services for non-residnets. The "Guide me to a service" button also does not help in anyways. I also did not get to read anywhere that if I am filing as non-resident, I can not use e-filing. Can you please clarify and also include these issues on the website and yes, do modify the statement "Everyone Qualifies" as it is definitely not TRUE. I have already wasted last whole weekend trying to figure out if I can use e-file. Regards, Sachin
1049609	I understand you have a program that I can run to do my tax return. What is the web site that I can download it? Thanks
1068664	PLEASE HELP ME, I WANT TO FILE MY TAXES OVER THE TELEPHONE AS I HAVE DONE BEFORE. MY SS# IS 184-62-7883 - ROBERT LAMISON - 3608 PARY AVENUE, BRENTWOOD, PA 15227. CAN YOU DOWNLOAD THE FORM TO ME OR SEND ME ONE? PLEASE LET ME KNOW ASAP.
1049844	ESmartTax was a great free service - which was user-friendly, convenient & disclosed their requirements right upfront. Thank You. On the other hand Turbo-Tax appeared deceptive - I spent several hours on Turbo-Tax site & only to find out after completing all returns that I was being charged for the federal because I was not in a participating state. Totally deceptive as this was not indicated upfront before I started
1049881	I did our taxes on the free turbo-tax. When we got to the state tax part it said we needed to pay 19.00+. So I did give my charge card information, then I discovered that the charge was not made on my card. Is my credit card information safe or is it floating around there to be used later? This question does not have to do with a tax question, but it is on my mind. Thanks
1050031	I want to let someone know that the free Turbo Tax program that has links from your web site is full of errors. I tried to use it for my Federal taxes. It added the same interest income in 2 different places, even though I only entered it in one place. It added capital gains income incorrectly. The itemized page was correct but when it transferred the total it added \$30 that had not been entered anywhere. There were also several deductions that were entered into their form and then left out of the totals with no explanation. The really frustrating part is that I would need to pay them \$30 to tell them that their software has errors. I will need to completely re-do my taxes manually.
1050116	I have finished my taxes, and just need to electronically file. Where is that site? I keep getting lists of services, etc. etc. I have the day off to get this done and thought it was going to be an easy task. TurboTax helped me do my taxes, I printed them out, and now I want to efile them. But where??? Thanks so much.
1050262	I went to the IRS website to use the free e-file method to file our taxes. When I chose a company, I could not link to it. When I clicked on TaxAct, instead of going to their website, I was closed down and returned to my desktop. This also happened when trying to link to TurboTax. I called TaxAct's help desk and they said I needed to contact the IRS; that it might be a browser problem. Can you help? Thank you.
1049944	I had finished filing out my Federal and DE State returns; I eFiled my > federal return; I printed out my Federal 1040; I wanted to go to my State > and I accidentally closed out of the web. How do I get back into my > returns to finish my State return and know where I can access both my > Federal and State tax returns ?? > > and I have a 2nd state return

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	to do. Can I do that thru the IRS website > (w/ paying of course) ?? > > Thanks > > Howard >
1048699	Do you have to file both your federal and state return electronically if you use the free service or can you still file your state return by mail? Thank you. np
1048644	I just spent @ 4 hours doing taxes on-line thru your website and links to H&R Block (used them last year on-line)..was very happy that they were part of your alliance this year,and that it would be free this time. After @4 hrs,and at the very end, I was informed I owed them \$29.95....I was shocked..they said I had previous record with them last year and should have told them I was a NEW account....too late to tell me after I spent all that time..they said I would have to do it ALL over again as new customer...What a joke...are you aware of this fraud???.they are duping you, and me..I cannot believe your website
1048924	I would advise you to check the H&R Block website. I tried to e-file free like it said on your site. I did this last year. I was charged 30 dollars for filing. This is false advertisement and I am not happy about it. I contacted HR block and was told that you have to create a new account and username and not import any information from previous years taxes. (no where does it state this).
1048926	Good morning, I believe there should be full disclosures on the IRS website for all the participating FREE Federal EFILE companies. Details should indicate how much is the fee for STATE filing. My daughter efiled and she had to be charged \$24.95 to efile her State return. The consumers should be able to shop comparatively of available services and associated fees, NO SURPRISES! She used TURBO TAX. Should she have been able to EFile a FREE FEDERAL return and Just file a STATE return with a hard copy? This information should be stated in each company's DETAILS. America has to be WELL INFORMED in order to select the right options. I really need to receive a reply. Thank you. manuel
1050022	I filed my daughter's tax return through free file on the irs.gov website using H&R Block. I printed a copy of the receipt saying my transaction has been processed successfully. However, I have received 3 e-mails telling me I need to click on a website and answer questions, one of which asks for my password, in order to complete my filing of her tax return. How do I know if these are legitimate or if her return is filed?
1057974	I heard you can file your tax returns free online. I have no money to pay someone to do it. How is this done? I went to www.irs.gov and it had other companies you go through rather than the IRS. Please give me some advice, I only made \$12'422 71 last year.
1048969	Hi my name is Cristy and I am sorry to bother you. I have my taxes filled out and everything and I was just wondering how to efile them? I have been to the site and I am confused about the steps and process of how to efile them. I don't know if you will be able to help me or not but I would really appreciate it if you could. Please send your response to my email address:
1048984	I keep getting ::bad request"" when I try to access the free e file. What I am doing wrong?
1048172	On your list of free e-file providers, you list TurboTax. I attempted to use their site and was not allowed to e-file any returns until I paid to e-file my state return. I had clicked in three different locations that I only wanted to e-file my federal return but when I got to the final steps, I was not allowed to proceed with only the federal return. You might want to put a note about that on your site.
1048187	I went through your website to do the free tax filing. I chose Taxslayer to do my return. According to their qualifications, I qualified for free tax prep. At the end of the return they charged me and I had no other option but to pay them. I don't feel this is right and I would like to know what you think about it. Thanks
1048260	Is free filing going to be a permanent event?
1048311	i need some help please. i prepared my federal return on the h&r block free filing site. h&r block can't retrieve it. my name and password is correct as i have verified with the h&r block site. what am i doing wrong? thanks leslie

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1048314	Complaint on H R Block. Company sends email offering free filing and Efile.Gives link to their site and then when the return is complete informs you the charge is \$49 for Federal and one State return. False advertising. Should be stopped. Email pasted in. For you, our Online Tax Program is fast, easy, accurate and free. And, once you've completed your federal return, you can do your state for just \$19.95. You can also e-file for free and have your refund in as little as two weeks. You must respond to a link in this email to receive this offer. Get started today. Your username is M111476burgess This email was sent to: dbins1@bellsouth.net. To unsubscribe, or for questions or comments, please use the following links instead of replying: Unsubscribe Questions or Comments H&R Block Privacy Policy Fraud Prevention H&R Block World Headquarters, Attn: Email Marketing 3rd Floor 4400 Main Street Kansas City, MO 64111 This message may be considered advertising under federal law. Copyright 2005 H&R Block. All rights reserved.
1048346	I went to the IRS web site (www.irs.gov) to determine eligibility for "free file". The questionnaire was completed and was found eligible for "free online filing". I then chose a company on the IRS List that followed my eligibility ruling. After getting into their procedure, I encountered many questionnaires and various offers of this and that. I chose not to answer some things, chose not to let my personal data be sold or spread around, and chose not to receive commercial emails. There were too many things irrelevant to tax filing. While I continued on to prepare a tax return, the screens became vague, and lastly had no continue option. The only choice available was the "X" Close button. Being the only choice, I chose that and exited. In short, I was "booted off". There must be some information on me that is now resident with the company I chose (information that was entered until being "booted off"). This is regretted and of concern. The free file offered is a sad joke. The personal info collected in this manner could very well be used in Identity Theft. Its scary. Because I would not cooperate fully with the agency and say yes to every request/statement, check each box to their satisfaction, their system must be programmed to send you to the online door. I fear that individuals who cooperate fully with online tax preparation agencies requests, may wind up regretting their actions and could experience Identity Theft, and or be plagued/inundated with emails, etc. Remember the telephone don't call list? This attempt to e-file has been a bad experience. Only when the IRS offers an e-file program, controlled entirely by IRS, and immune to commercialization and loosely guarded personal information, will I e-file. Meanwhile, I will continue to file the old fashioned way, a paper 1040 sent through the U. S. Post office to the IRS. My hope and intent is that this will be constructive to the IRS in its future planning for electronic tax filing. Sincerely, A Taxpayer who wanted to e-file
1048354	I used Turbo Tax (outside of the Free File system) to file my daughter's (minor) return, and I sent it in electronically and paid the fee. I then learned about the Free File system, so I accessed irs.gov to start my tax return with Free File. I used my <u>already established</u> user ID and password. At the end of the process I went to electronically file, and the message I am getting is: "Your federal return has already been accepted by the IRS. You cannot electronically file it again." Are there any options to electronically file, or do I need to print and send in paper?
1048358	We have just supplied all of our personal information including Social Security number to one of the referenced "FREE" E-File companies listed on the IRS.GOV E-FILE page. After putting in all of our information on the site (http://www.fileyourtaxes.com), they mention that it is a "FEE BASED SERVICE." That doesn't sound free to us... and we are uncomfortable that we have thrown our personal information out to this page that apparently has been misrepresented, or has misrepresented itself. If we were to proceed, it would have cost us 19.95 plus 4.00 for the schedule A. Here is their pricing page:(http://www.fileyourtaxes.com/Pricing.html) Is this a mistake, or a misrepresentation of fact? Thank you, -Matt
1048374	We did our taxes for 2002 and 2003 using Turbo Tax. Our computer was hit with a virus

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Reference #	Question
	<p>and we lost all past Turbo Tax from our system. We have a hard copy of both past filings but cannot make it work with our 2004 Turbo Tax. We reloaded the 2003 software and attempted to input everything from our hard copy but we're only getting in deeper and deeper and the bottom line does not reflect what was entered for 2003. This really presents a problem as we have multiple residential rental properties, a new rental purchase processed as an exchange, payoff of mortgages, and refinancing of mortgages for 2004. Is there anyway the IRS can get Turbo Tax to download our 2003 taxes to us? We e-mailed Turbo Tax with this request telling them we would pay whatever was required and the response was that they don't keep them. We find that hard to believe as they need the info should there be an audit. Can you help us?</p>
1048507	<p>Why is the free e-file for the IRS 1040, not free. I went through the whole thing and they want me to pay \$9.95 to E-file my return. I think the whole thing is very misleading, because it is not free.</p>
1048509	<p>I have recently efiled my tax return using the link from your web site. It was returned because I had my Employers FIN number incorrect. I edited the number and resubmitted the return, however, when I checked the correction it still had the wrong FIN number. There is no email address on the site that I used to ask them how to rectify this situation. The site address, which was a link on the IRS web site, is prep1.efiletaxreturns.net. They state if I need to order a paper copy to then be mailed there is a charge! The reason I used the site is because it was supposed to be free, fast and secure yet there is no way to contact them. Please advise, Elena</p>
1048600	<p>I was checking your site to see if I might file electronically- I am a senior citizen and I must say I can not understand how to do it FREE - on my own - Is there some simple wau to do this?? I can not even get started - the site is mindbogling.</p>

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Reference #	Question
1072924	my comment is about the so-called free file alliance. i tried 3 different sites. all of them claimed to be FREE until the very end, when i wanted to have my tax return sent to irs. thats when they demanded a credit card payment! Thats false advertising if you ask me.
1075037	Just wanted you to know that I tried to use one of the E-files (www.eztaxreturn.com) to file my return (found on www.irs.com). It was rejected and I have been trying since 2/10/05 to get my money back from eztaxreturn that I paid to file the taxes. I called IRS and was told I needed to file a paper return. There is nothing listed on their website to tell you how long it takes or what steps to take to get your money back (only money back guarantee). Their prompts have been vague and leads you to other areas that they say they are not affiliated with and they do not answer their inquiries in the time frame they say. Please contact me if you want more specific information
1075102	I recently went through free e-file on your site. I selected H&R Block as the company to work with. They offered to upload my information from last year (as I filed taxes with them last year), and since it said nothing about an additional cost, I agreed. However, when I neared the end and was about to file federal and state, the site charged me (or attempted to charge me) \$29.95 to file federally. These charges were not explained at all until the very end. I contacted their free on-line tech support, and Jasmine Moore (their rep.) told me that I would have to re file my information and not upload any old info. from them. She said that they were aware of this "kink" in their system, but that there was nothing she or they could do. She said they had been informed several times (I have a printed copy of the transcript of our conversation). She said that I would simply have to START OVER at www.hrblock.com/gotoffa, which did not work!!!! I am very upset about this, and I will not be paying H&R block any of my money. I think something needs to be done about this for future users. Such a practice is unethical in my opinion. Perhaps IRS needs to post a warning or something on the FREE e-file portion of its site. Please advise. Thanks for your assistance, Amy
1077229	IRS, I have previously used TurboTax.com to file last years taxes. I'm wondering if your offer for free online tax filing through IRS.gov is as easy to use as Turbo Tax? Does it guide you through all the necessary tax forms and let you know which ones to use or not to use? If someone could please email me @ the address below asap, I'd appreciate it greatly! Thank you in advance, Janell janell.alphamare13@earthlink.net EarthLink Revolves Around You.
1075175	After trying my best I decided on spending 37 cents to mail my Federal tax return. There is no way I could do it having "irs.gov" as a sponsor... The \$79.95 charge by a private company is RIDICULOUS! Please do something. Thank you!
1075629	I completed my taxes with HR Block but in order to finish it was going to cost 49.90. 19.95 was for State which I realize is separate. But why was I charged for federal? I linked to HR block though your site?
1075675	"Taxslayer" does not honor the pledge stated on your website for free e-file for those under 25yrs of age: Free Offer and Company Information: TAXSLAYER.COM is pleased to help those hard working Americans and donate our web services including a FREE Federal and State Tax Return to the following individuals and families: During calendar year 2004 Were age 25 or younger (taxpayer or spouse) OR Were age 61 or older (taxpayer or spouse) OR Qualified for the Earned Income Credit (EITC) Taxpayers who qualify for one of the above offers must e-file their Federal Return through TAXSLAYER.COM to receive the free offer to do their State return.
1075422	I don't know about the other companies you list on your "free" e-filing page, but turbotax's "free" e-filing isn't free. They offer a rebate for their filing fee, but they also charge a processing fee.
1075886	Dear IRS official: The free e-file services offered by one of the companies listed on your web site is a scam. The company Free Tax Return submits
1075866	I used Turbo-Tax's free service on the IRS's website. I paid the \$19.99 to also file my state return. I want a hard copy of my federal return for my file, but am unable to print without

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Reference #	Question
	paying an additional fee for the state. Is there some way I can print my federal return but not my state? Thank you Marsha
1076959	I have completed my 1040 form and instead of mailing it I would like to file it online. Where is the link to do this? Aimee
1076144	I heard on a radio program that the Turbo Tax software is available (for free?) from your website. Is this correct? I have been unable to find it and would like assistance in locating it so that I may download it.
1077288	Yahoo is posting "IRS E-File" as the first hit when you type "IRS.GOV." This outfit charges over \$109 to file what would be free under your address "IRS e-File." Note that only the letter E is different. This scam cost me \$109.95 and now I don't know if they actually filed the form. How can I tell?
1085390	I tried to free file with H& R Block at the link for freefile from this website. As I was going through they tried to sell me services and I clicked on no to every one. But at the end I was given a 29.95 amount due for filing. This seems to be a fraudulent link since they say it is freefile and then try to get you to pay. I am a low-income taxpayer and cannot afford to pay. Could you please help me find a place to file where I won't be charged anything? Thanks
1085253	I used your free file through turbo tax. But I was still forced to mail it in, thus the whole point of doing it electronically was wasted. Turbo tax required a fee to have the refund deposited into a bank account, so we opted to mail it in so that we could have the refund deposited into our bank account. Because of that, you will get the taxes in the mail and the data will need to be entered by a person. I really want to file electronically because that simplifies things greatly for you, the IRS. But until it is free, we won't do it. Thanks
1084945	Dear Sir or Madame: I spent all weekend trying to finish my family's taxes....I found on your Web page using a search for low income (we grossed 20,566 last year), and I chose Turbo Tax. They are NOW REFUSING TO EFILE my state or Federal returns unless we pay them 29.95 Federal and 1295 state. Then they want another 29.95 for AUDIT PROTECTION!! I can't print any info because they 'won't release my taxes unless I pay for the service." They advertise if you made less than 27,000 last year YOUR TAXES WOULD BE E FILED FOR FREE!!! HELP, please? Thank you, Mrs. Kimberly
1085000	Your site is nice There is one thing you could do to improve it I filled free federal and state returns last year but this year I got scammed with one of your sites it wanted 9.95 to file state and won't let me print it to mail it I now have to find a site to do state taxes separate I had to go to someone elses house to file this much now it is a hassle to keep doing this. I wish you would list sites and tell if they file state free or if there is a charge up front not after you spend 3 hours doing your return I don't owe anything why would I pay for it to be sent. BIG RIP OFF the site is esmart tax I will ot use them again.
1085039	Why am I being charged by Turbo Tax?? I amade 12,000 last year and they claim on YOUR SIGHT tax filing BOTH STAE AND FEDERAL are free if your income gross is less than 27,000. I was ripped off!! As was my sister, aunt, grandmother, mother and father and daughters....GET THEM OFF YOUR SEARCH SIGHT FOR FREE HELP!! EACH of us was hit for over \$100 non reversible charges!! Mr. Mitch , Mr. Marc, Mr Sterling, Ms. Hollidae, Ms. Mellissa, Ms Dena and DEENA Hill of Oklahoma...
1085504	I've been trying for almost two weeks to get into the H&R Block Free Tax Filing Site. I used my user name and password from last year as well as trying a new user name and password. I enter the information and then click "sign in". It will go the a page with the green H&R name and emblem with the words "return to taxes" under it. If I click on anything on that page, I get logged out. Last year I had no trouble at all. This year is a different story. I didn't want to go to the local office if I could do my taxes on line. Can you help me get into the H&R Block Free Tax Filing Site? Thanking you in advance, Delores E. Cook
1085646	Our taxes were e-filed and accepted. My computer went down and had to reset. I lost the email stating all is/was accepted. Now I would like to go back and print a copy of this yr.

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Reference #	Question
	taxes that I filed. How and where do I go to get that accomplished? It is this yr. filing 2004 I would like, not last yr.
1089071	i noticed that the only way to file a tax online is to file with one of those off gov. sites that are not secure....is that right? i would like to file my 1040 taxes instantly but i am not sure...is this my only choice? i want to include my direct deposit account for my approx \$500 refund...would faxing to your gov. office be a better choice? i would like to do this asap!! thanks, L
1089175	I have visited the irs.gov web site with the hope of electronically filing my 2004 tax return from my home on my personal computer. I have been told by a friend that the IRS had a method to allow e-file free of charge. When I visited the irs.gov web site I found a lot of private company web sites linked to the irs.gov site of which most charge a fee. My question is in two parts. First, does the IRS provide their own resources that allow individual tax payers to file from their personal home computer completely free of charge? Second, if they provide such a service, where on the irs.gov do I find it?
1088995	I used your site to file with tax\$imple.com, one of your recommended servers, and found it to be very unsatisfactory. I slogged through the whole form, and then, despite repeated attempts, was unable to send. I suspect that if I had purchased one of their products, you'd have my 1040 by now. Instead, I'm off to the Post Office.
1089010	I am doing my tax return with turbo tax. As I start it gives me back a certain amount of refund which I find acceptable... When entering a \$2350.00 car donation in the appropriate section it's not changing the original amount of refund. (Meaning no increase in the refund) My question is: Why my donation is not affecting in anyway my tax return? Thank you.
1091009	I would like to efile my return (1040) but cannot find the right place to start at the website. I am at IRS.gov. I have read about various free software and filing services, and how to self select a PIN, but I just want to get started. I have already figured my taxes on Turbo Tax, just want to efile the 1040 for free. Where do I go? Thank you. Georgiana
1091073	I am wondering how i can file directly with the IRS. I have done that before. Your site isnt too user friendly, everytime i choose to do my taxes, it links me to a privately owned business. I want to file my taxes directly with the IRS myself online. Can u please send a link to the direct official IRS site that allows u to directly file your taxes? peter tomasetti
1088563	I went through the free filing and chose turbo tax. Yesterday when I completed my filing, it showed \$0 balance charged. Today when I had to go back in to see if it was accepted, they are trying to charge me \$19.95. What is going on?? Help. mattiewink@yahoo.com Sandra
1086873	I went through the IRA site to the Free file section. I chose Turbo Tax as the site I wanted to file my free taxes through. I started the question an answer session and on the screen in the background it said " Free File". As I progressed through the software, it never gave me a message that the refund was no longer free. When I completed and transmitted the refund, I was instructed to come back to the site to print a final copy of my return. I was given the message that I could not print a final copy of my return until I had paid \$19.95. I already paid a \$24.95 electronic filing fee. So, my "FREE FILE" ended up costing me \$44.90! Isn't that the old bait and switch? Please advise. Jeanna
1088967	Hello there, SSN Heard it was free to use Tax Act software so I went to taxactonline.com and filled out my Federal return. They offered free state filing if I used them so I did my MASS return also. Then I had to give them a credit card number TO PAY 15.90. What happened to the free filing??? I emailed their help desk and was replied to : "you didn't follow the proper link". This is ridiculous. I got an email from them since I used them last year and just clicked on the email link! I'd like to report this fraud and want a refund of my filing fee. Thank you for your time, Andrea & James
1086393	Why did I have to pay to have my taxes e-filed????? It says free but it cost me \$7.95, and my income is just 19000. I did get a refund but I deserve it. Why do you say free when it is not free. I went to several of the tax sources you recommend but all charged a fee to e-file

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	my return. I thought I could trust IRS.gov for true information. I am very upset about having to pay!!!! When I was told it was FREE FREE. Please e-mail me so I can understand this!!!!
1080537	I would like to report an issue with the 123 easy tax filing service. I got the name off the IRS website and used their service to file my two daughters taxes for 2004. I have since discovered that the 123 tax service automatically and incorrectly checks box 6a, whereby claiming themselves (my daughters) as a dependent on their own return. To solve there issue and get answers I now have to pay \$6.95. This is not right and they do not have a phone based support system at call and complain. In the meantime one daughters file went through accepted and the other rejected due to code error 0510. My own return where I claim both daughters is also rejected due to code error 0510.
1087946	I want to eFile by filling out forms electronically (not by interview). They all seem to want to charge a Fee or not accept filing from Colorado. I need to use forms A, B, D and 1040. I have no withholding and the Taxes come out to zero. I will appreciate any suggestions.
1088118	I went to the irs.gov web site to sign up for free file. I used the HRBLOCK program. Went through the whole ordeal and they want me to pay money for this. I had originally signed on at one of their hrblock web sites, found out that it was a 'pay' site, went to irs.gov, signed on with a new and different ID and they want money. What is with this fraudulent money grab on a gov. site? Thanks, Mark
1080349	You have a link to Turbotax.com as providing free e-filing for Federal returns. I thought I should let you know that they do not provide this service for free. They only claim to. I repeatedly selected that I only wanted to file my federal return and NOT state, but they kept requesting my credit card number and saying I owed \$24.95 to file my state return. I tried several different links that were labeled "Free Federal Filing" and they all brought me to the credit card page. I tried going to their FAQ page and I tried sending them an email to ask what the problem was, and even that brought me to a credit card page.
1073097	I used one of the free efile websites on irs.gov to file my 2004 return. I had 2 state returns as well. I posted two W-2's but it only processed one of them. I was wondering how I can just file that one?
1073226	I efiled from my Tax Cut software, which said I should get an email confirmation within 24 hours. None has come after 5 days. Was my efile successful? Will I have to file again?
1072654	On a radio program this week in Minnesota a "tax expert" stated that if one downloaded Turbo Tax from the IRS web site it was free. If this is true-- how do I find it?
1073202	I attempted to use the free efile on my home computer. I entered my personal data, entered the "turbotax" site and up popped a page that said "An error occurred please contact the IRS help desk at 1-800-876-1715 or Email if the error condition persists. I will be paper filing, as I do not have time to wait for the program to work. Patti
1074105	Intuit TurboTax offering claims to offer free e-filing for all tax payers. However, at the very end they claimed that I was not eligible for free e-filing because I had entered married filing separately and I live in a community property state (WA). They could have told me this at the very start and saved everyone much time and effort. I don't like the bait and switch. It is fine for them to not support free e-filing to anyone they like, but they should be up front about their restrictions. Brian
1075570	I wish to lodge a complaint against Turbo Tax. I was sent there to complete my son's taxes by e-file. It was supposed to be a quick, easy, and free way to file taxes. After inputting all the information, I was told that I had to download and install Adobe Acrobat in order to file. Then Turbo Tax said that I owed them \$9.95 for the Michigan return. Then they said that Santa Barbara Bank and Savings would take the fee out of the refund for another \$24.95, since I asked for direct deposit into my son's account. And all this to take money away from a poor college student. I think that the IRS should have a method to directly file simple returns from college students who are only working a summer job directly to your agency. My son's refund was \$259, and Turbo Tax was going to take \$35.00 right off the top. That's about 15%. Unfair!

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1075683	help I have gone to your website and chose two different companies to free file with. After hours of imputing data into these so called free sites, they want to charge me to file. Why is this happening? I know people that have used these companies and they were not charge. What am I doing wrong? Please help me so I can complete my return ASAP. Thanks Michelle
1075803	I have gone through your site for Free Federal Efile, answered question, and showed qualify for this service. I chose HR Block through your link, then to site to leave IRS and file. I did return, and at the end it showed I owed 29.95. Have not been able to find out why. Can you help? I went through irs.gov, because I do know if I go straight to HR Block there is a charge. Thank You Kathy
1075847	I STARTED TO FILE WITH H&R BLOCK ON HERE-STOPPED BECAUSE MY REFUNDS WERE TOO SMALL-STILL H&R BLOCK CHARGED ME \$19.95 FOR MY WISCONSIN FORM-I DID NOT FILE ON THE COMPUTER-I MAILED MY FORMS IN-WHAT CAN I DO? I EMAILED H&R BLOCK-I THINK-HARD TO FIND A SIGHT FOR EMAILING THEM-BUT I WANT MY \$19.95 BACK! WHY SHOULD I PAY FOR SOMETHING THAT THEIR SERVICES I DID NOT USE- MY FEDERAL IS \$75.00 AND STATE IS \$45.00-YOU CAN SEE WHY I COULD NOT E-FILE--THANK YOU RUSSELL
1075643	Does the IRS have any guidelines regarding the fee that a tax preparer may charge? Thanks.
1079115	Hello, >> I selected TurboTax from your Free File online service and at the > end it asks for a \$24.95 tax preparation fee. -If I would have known that > when I started I wouldn't have filled out all my tax info. Please fix > the website to say there is a fee at the end instead of free online > service. >> Thanks, > Danny > Danny@Crouch.net
1075024	IS THERE A SITE TO FILE MY LATE 2003 TAX RETURN THAT IS FREE ON LINE/ PLEASE ANSWER ASAP, I NEED TO SEND THESE IN ASAP OR I WILL RECOPY AND MAIL 2/28/05.
1074740	I linked to H and R Block to free file. It is a requirement that before you are officially filed that you link back to them through an e-mail that they send you to finish the filing process. I wrote down my password that I had to enter twice as confirmation. When I got their e-mail, my password did not work and they stated that in order to reset my password, they have to have a valid credit card number. Please look into what seems like a hoax. Now I don't even know if my return is filed.
1074180	I wanted to report a problem that I perceive to be serious. You sponsor TurboTax on your website, and so I used their services to file. I got to file my federal taxes for free, but they charged me for my state filing. The problem is, they provide you with the option of paying for your state taxes with a direct deduction from the federal refund. However, only AFTER you select this option, do they disclose to you that there is a fee associated with this payment method, but then if you want to go back and select to pay with a credit card, they just wouldn't allow you to do that. More than that, they don't even bother to disclose to you the actual fee associated with this payment method. I think that it is particularly disturbing that a company that is sponsored on the IRS website came up with this method that I consider to be fraudulent, to dig into tax payers' refund money and take a fee of the refund money that the taxpayer did not agree to pay (again, without letting you change your mind once they inform you about the fee). I am very concerned that many tax payers find themselves in this situation, and again, I believe that this is a dishonest, manipulative practice. I did call TurboTax customer service with regard to this matter, and got a very unsatisfactory response. I would like to ask you to look into this issue, and I also intend to contact consumer advocacy groups with regard to this matter. Thank you for encouraging customer feedback. I look forward to your response. Regards, Karin
1077875	Hi, I wanted to inform you that H&R Blocks Free File is not really free. On your website and there website it states that H&R Block will prepare & file Federal income tax for FREE. NO RESTRICTIONS. This is not true. If you filed through H&R Block last year and use your login you are charged 29.95 for the service of preparing your Federal income tax.

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Reference #	Question
	There is no disclosure on there website or yours that informs the customer of this. Even if there were the website clearly says no restrictions. Thank You. Eric
1075073	im trying to do my taxes online and its not lettin me.... what can i do.....
1078254	I elected to use TurboTax FREE efile. It is very clear on your site that there is no preperation fee for federal taxes or e-filing fee. I spent quite a bit of time using that service for my federal taxes but when I began the process to actually e-file them, I kept getting a TurboTax page that told me I had to select a payment method for the tax preparation. I have emailed TurboTax regarding this but have not received a response after 5 days. I elected not to give my credit card information to TurboTax or to authorize them to take payment out of my return funds. When doing that, I cannot go any further in the e-file process. Why are you allowing them to advertise that it is free when their program will not allow me to actually file free?
1078447	Hi I am a tax payer and I would like to know what it is I actually have to click on to get the E-file form to enter my information to file my taxes.
1077744	You should not include H&R Block on your list of free filing sites. I wasted two days trying to work with their horrible site, and in the end they were going to charge me \$30 to file my federal taxes, after they advertised "Free filing, no restrictions." Now, I have to find another place to file and I should probably just mail in the darn form like the old days. Isn't the government trying to avoid this? Don't you WANT people to file electronically? Why doesn't the government set up a direct site for people to file their taxes online for free? Why do we have to go through these cheating tax preperation companies? I am furious about this.
1081882	I used a link on the IRS website for taxengine.com for "free" tax return preparation and was charged \$29.95. Why?
1081885	I think that by telling people to save the country money by filing online(costs of filing paper returns) is typical of my government trying to save itself money instead of it's inhabitants. Every "free" tax filing website that the Irs webpage has tried to send me to has tried to rip me off and has been falsly advertising to just let you get through the whole online tax filing process just to find out that every single online tax return agency charges a whopping fee just to file. I am disabled and my government knows this. I shouldn't work because of my disabilities, I'm only getting \$64.0 back from the work that I did do last year and so far every online filing agency has tried to take ATLEAST HALF of that. This is a wrong practice that I can't believe my government is condoning and it makes me not have faith in my government at being honest with me (not that I ever have,& this doesn't make it any better). And since you can't come after my disability and I don't have any possessions that you can take from me it makes me not want to file at all. To call me disgruntled is an understatement.
1081685	I live in North Carolina and I recently filed my taxes with the e-file services. What I found out last week was that it only filed my federal taxes. I filed my state taxes with taxslayer.com last night. When it asked about my federal I left it blank because I have already receive my refund check. I received a email that said my federal taxes were rejected. What should I do?
1079986	I THOUGHT SOMEONE THERE SHOULD KNOW THAT MY FATHER AND I BOTH USED YOUR FREE E-FILE LINKS USING THE HOME PAGE AND "START NOW" BUTTON AND WE WERE STILL CHARGED FOR OUR FEDERAL E-FILING. WE FOLLOWED THE INSTRUCTIONS TO THE LETTER, USING YOUR WEBSITE LINKS TO DO THE PROCESSING. I USED THE ONLINETAXES.COM LINK AND HE USED THE TURBOTAX.COM LINK FROM YOUR WEBSITE AND WE WERE BOTH CHARGED FOR OUR RETURNS. IT SEEMS TO ME THE FREE FILE ALLIANCE MEMBERS ARE UNFAIRLY PROFITING FROM THIS VENTURE AT TAXPAYER EXPENSE.
1082868	On your site I was directed to a list of sites to file my taxes electronic for FREE. I used the TaxACT.online link from your site that said FREE. At the end of filling out everything to file electronic there is a \$7.95 charge to file electronic. This is NOT free and the site should

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Reference #	Question
	not be on your site listed as free.
1073428	I have been trying to access the free e-file options linked from the IRS website, but not a one of the sites will go through the link. I can go to them directly, but not through the links. I do not want to pay for this service, but the only way to get to those links is direct. Is there a technical problem that is being addressed? Sincerely, Taxpayer
1079481	I'm very ticked off. I just spent an hour putting my info in turbo tax's "free" online filing system only to find out I have to pay a \$24.95 tax preparation fee in order to file on-line. Their services should not be listed as part of the free filing program nor should any company who charges a fee of any sort. It doesn't matter whether it's labeled a filing fee or a preparation fee is irrelevant - it's not free if you get charged for anything. I'll go back to the good old fashioned way and put it in the mail. If you want people to file on-line then find a way to truly make it free. Most of us don't need anybody to prepare our taxes for us. Thank You Carolyn
1077064	pls help find or show me to go inthe freeweb free alliaiance site.because when i go to h&r block its either showing me leave the irs site or back page so how can i link my self to irs/h&r free preparation.thank you
1077259	I heard that there was free tax preparation software out there on the irs.gov website, but I cannot find it. Do you know where it is and could you send me the URL so that I can download it.
1076987	I tried the free file option. I listed all my info and allowed the system to recommend a service. I chose H&R Block from the list. After completing my return, they are trying to charge me \$ 29.95. I thought it was free. What gives?
1075252	I attempted to use the free e-file service "Online Taxes" that I selected from your list of free e-file providers. I thought I properly linked to their site (online taxes) for the free service, but after the labor of entering the information and completing the tax forms, payment was requested ! Also, Online Taxes makes it difficult to avoid filing a state return (which of course is not free) Thanks, Bob
1075389	The "Free File" at the Turbo Tax site via your irs.gov site was NOT and is NOT FREE. I spent hours inputing data and am unable to print a return unless a state return is paid for (@ \$24.95). This is not stated anywhere until you try and print the Federal Return. This would seem to be "Fraud" by any legal defination.
1080813	Good Afternoon, I would like to report an issue with the 123 easy tax filing service. I got the name off the IRS website and used their service to file my two daughters taxes for 2004. I have since discovered that the 123 tax service automatically and incorrectly checks box 6a, whereby claiming themselves (my daughters) as a dependent on their own return. To solve there issue and get answers I now have to pay \$6.95. This is not right and they do not have a phone based support system at call and complain. In the meantime one daughters file went through accepted and the other rejected due to code error 0510. My own return where I claim both daughters is also rejected due to code error 0510. Please advise. Alec Senior Manager, HR
1084692	I spent all weekend trying to finish my family's taxes...I found on your Web page using a search for low income (we grossed 20,566 last year), and I chose Turbo Tax. They are NOW REFUSING TO EFILE my state or Federal returns unless we pay them 29.95 Federal and 1295 state. Then they want another 29.95 for AUDIT PROTECTION!! I can't print any info because they 'won't release my taxes unless I pay for the service." They advertise if you made less than 27,000 last year YOUR TAXES WOULD BE E FILED FOR FREE!!! HELP, please? Thank you, Mrs. Kimberly Price
1085432	Using Free File for H & R Block, I encountered a problem. When you link to the H & R block site through irs.gov, you are asked to create a username and password in order to begin filing. There is another area on the page that you can click for a client that has used the service last year. Clicking on that (as I used H & R Block last year) I prepared my return. When it was time to pay, however, the federal return was not free or charge. Possibly thinking I may have done something wrong, I used that chat line. I was informed

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	that returning clients need to create a new user name and password in order to benefit from the free file service. I recommended that the site either change this or notify the returning client of this. I believe irs.gov should be aware in order to note in its disclaimer of another circumstance where free file may not be used.
1085477	I'm very disappointed this year in your so called free efile links. The companies guide you through the federal returns and will not file them electronically until you commit to filling your state returns and paying a fee. Last year the companies told you upfront about the charge and asked after you finished your federal returns if you would like to stop and submit your federal returns for free. You have wasted my time, yours and the Post Office because I am going to mail this years returns.
1085583	thought that I was on the free tax filing program w/ HR Block, but the end they wanted to charge me for the preparation. How exactly do you get on the online filing for free w/ HR Block?
1084774	Every time I click on a link for FREE tax service through the irs.gov website, it won't allow me to enter the site without closing out first, so I can't get to a free site. HELP!
1073883	I have tried to use the 'free' service of Turbo tax from your web site. but its not free. They will not allow me to electronically file my federal return without agreeing to a \$24.95 charge and providing credit card details. This is wrong. I thought federal filing electronically was supposed to be free. I know I have to pay for state filing and Turbo tax gives a choice at the end where they ask if you want to file both state and federal or federal only. I have chosen federal only but the site will not allow me to file unless I agree to the fee and pony up card details. Please look into this. As I said, I know there is a charge for State but I declined to file a state and chose the federal filing only but the charge is still there. Thanks.
1084986	I spent all weekend trying to finish my family's taxes....I found on your Web page using a search for low income (we grossed 20,566 last year), and I chose Turbo Tax. They are NOW REFUSING TO EFILE my state or Federal returns unless we pay them 29.95 Federal and 1295 state. Then they want another 29.95 for AUDIT PROTECTION!! I can't print any info because they 'won't release my taxes unless I pay for the service." They advertise if you made less than 27,000 last year YOUR TAXES WOULD BE E FILED FOR FREE!!! HELP, please? Thank you, Mrs. Kimberly
1083576	Though I always accessed TurboTax "free" system thru the irs.gov/efile web site, they are charging me \$24.95 for software preparation and \$24.95 for state filing. What's up? Pam
1083626	I used the www.irs.gov/efile web site to access TurboTax free file. I used the "standard" form so there would be no charge (the premium form has a charge). My concern is that they are charging me \$24.95 when this was supposed to be "free". I have not yet e-filed as I didn't want to pay the \$24.95. I just now contacted them but do not expect an answer as last year they never answered a question I had (when I purchased their software).
1083877	your website is pure bullshit, you claim "free file" but then you transfer all to a fuctard company who charges to file it????
1089189	Tubo Tax is NOT FREE! I went through the program thinking it was, and I was so worn out when I was done I went ahead and paid for it, but please make this clear to future victims.
1089194	To whom it may concern, I have visited the irs.gov web site with the hope of electronically filing my 2004 tax return from my home on my personal computer. I have been told by a friend that the IRS had a method to allow e-file free of charge. When I visited the irs.gov web site I found a lot of private company web sites linked to the irs.gov site of which most charge a fee. My question is in two parts. First, does the IRS provide their own resources that allow individual tax payers to file from their personal home computer completely free of charge? Second, if they provide such a service, where on the irs.gov do I find it? Please reply to my e-mail address which is: wayne.berry@worldnet.att.net Thank you.
1089043	The free filing offered by H&R Block was a complete waste of time. Much of the site was full of error messages whenever a help topic was chosen and the errors that it found on my return were nonsensical and unfixable. I'm sorry I gave them my personal

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Reference #	Question
	information!!!
1091328	I sent a previous email regarding the e-file options... I tried once again and was asked to pay \$24.95... no sense, since what I owe is only \$4.00... (I would rather pay YOU \$25.00 directly)... then I went to the California TFB to file my state taxes and was able to FILE BOTH, the federal and state for FREE!... this was through completetax.com. Why don't you have this option? Every one of your options for e-file offers the federal filing PRESUMABLY free, (asking for the money at the end...) but the state file for a fee...
1087605	I used TurboTax to file my taxes and it was indicated to me that the federal and state would be free. When I completed sending the efile, I was not allowed to print my documents until I paid a fee of \$24.95. This is fraud. I investigated a few sites and thought TurboTax was the best one but now I see they are a fraud. The Bottom Line sheet indicated that the federal and state fees were 0 then it changed after I sent it through. I will not pay for this. How dare they mislead taxpayers. I hope something is done. If I had known this I would have done my taxes manually and sent them via mail as I have for years. Now I don't know what to do. The federal was sent but my state taxes won't go through unless I pay \$24.95.
1074382	according to the irs website, if I linked to a tax preparer through their site, there would be no charge;hence freefile. After linking to two of these sites, and going through the whole filing process only to be asked for a fee (89.95 in one case) ifinally paid the lower price of 29.95.Why was I charged when the service is advertised as free?
1090879	I found the free e-file to be very user unfriendly! In trying to file my handicapped daughter's taxes, which are very simple, low income, form 1040 EZ, I first tried H&R Block, which put me into a loop continuously asking for user name and password. Then I tried ez TaxReturn, and it seemed to work, but 2 days later I got an E-mail saying the IRS rejected the return. When I went to their web site to try to fix it, I was continuously timed out, saying it was over 10 min., when it was actually less than 1 min. I have given up on e-filing, and will file a paper form.
1074687	I tried the free file option. I listed all my info and allowed the system to recommend a service. I chose H&R Block from the list. After completing my return, they are trying to charge me \$ 29.95. I thought it was free. What gives?
1073151	I would like to file free but no matter what I click it tells me I am leaveing your site, How did I or what do I click to file free?
1072724	I have gone to your website and chose two different companies to free file with. After hours of inputing data into these so called free sites, they want to charge me to file. Why is this happening? I know people that have used these companies and they were not charge. What am I doing wrong? Please help me so I can complete my return ASAP
1072940	I have spent two days looking for the things I need. The forms that I thought I could fill out with your help so I wouldn't have to go anywhere else, because I am a taxpayer that really cannot afford to pay for services. By the way, I've always been taught, by my dad and by the government (different agencies) that if you charge a fee for a service, you could not legally call it "free". So why is this "Free Alliance" listing outside businesses that advertise "free e-filing and preparation" and then tell you they charge a "filing fee". If it says "free e-filing", isn't it against the law or some governmental policy to charge for that "free" service? I am very disappointed because I thought (according to your information) that filing was never so easy. Well, with this current web site, I have been through a LOT of topics and more sites, and moe confusion. Where are the forms you guys have to file the taxes electronically? If they are hidden, can you please tell me where? I cannot find where anything is that will help. It would be faster and a lot more easy to do this by hand and hope to God that I calculated it right. Sorry I couldn't give a better report.
1076059	I encountered a second problem while trying to complete my 2004 tax return with OnLine Taxes. Their program did not save the data I entered about non-cash contributions. I worked hard inputing this data and now it is lost and I can't finish the return because I am not certain the program will keep this data until I go to the end and finish everything else.

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Reference #	Question
	This has been a very frustrating experience for me. I will NOT use this program any more and I recommend you take this company OFF the list companies that provide free tax filing services to the public. It has wasted a good number of hours for me and I almost filed my return with this error in it. I would have had to file an amended return and create more of a hassle for myself and the IRS. So please, remove them from your list, as they have not done the minimum quality control that I believe is expected
1076114	A newspaper article stated that anyone can use commercial tax software - for free - at the IRS web site. Where are the tax software programs? I could not find a link to them. P.A.T.Y. Structures & Components Characterization Group UDRI, +0183 937.229.3786 pat.youngerman@udri.udayton.edu
1074154	what is reference number 1321?
1078623	I've tried the "Start Now" button on the FreeFile page several times, and at different times of day. It refuses to download. Any help for this??
1074911	I chose online-taxes.com from a list provided by you as a "free" filing option. No price was mentioned until the last step, after more than an hour on line filling in my forms, and then they wanted a fee to file. The the link to open and print my return was unidentifiable by my browser and I could not print a copy. I will not use on line filling AGAIN. It is more time consuming and more costly. I consider it fraudulent to waste my time under false pretense. Can you confirm that I filed a return through online-taxes?
1078504	I prepared my taxes TWICE this evening using two different tax preparation software links provided on the irs.gov site from the Free File Alliance. Both times I was assured that I could file for free (the federal forms anyway) and both times I got to the end of the process only to be asked for a credit card number. I could not file or print my forms without making a payment. This is DESPITE the fact that both software products are listed on your Free File site as free for all users - no restrictions. How is this possible? The offending products belong to TurboTax and H&R Block. I have now prepared my taxes twice and have to do it again. I am really irritated. This is false advertising that is just screwing the customer. How many people just pay when they get to the end because they don't want to go through the hassle again? I'd bet quite a few. Me? I think someone needs to re-evaluate the tax preparation and e-file services offered, and don't pass services off for free when they most definitely aren't. I would like a reply. And if this is not the correct department to address this issue, I would like to know which department I should be contacting as well as their contact information.
1079807	To Whom It May Concern, I want to know where can I go do have my taxes done for free. Thank you for your information.
1073439	I have accessed the Free File links to prepare tax return and in choosing Turbo tax I find they are charging me a preparation fee of \$24.95 even though their link under "more details" notes that everyone qualifies. This return is a taxpayer, with wages under \$10,000 for the year, completing the 1040EZ form. I understand the \$9.99 state filing fee, just not the software fee. This was accessed through the irs.gov website. Any ideas or suggestions? Thanks.
1073485	Compalint: about the 'free' federal tax return at TurboTax. I went to their site and filled out all of the requested data, then when I went to finish, they said that the federal return would cost me \$29.95. Unfortunately, I went ahead and finished the process of giving them my credit card number and proceeding to the filing section, hoping that the charge was a bug in the software and that it would rectify itself in the end. Needless to say, there was no software 'bug'. When I contacted them to complain, they said that the software "autoamtically upgraded" the software package that I was using - the reason(s) are not clear. So, I'm stuck paying \$29.95 for their so-called "free" filing which, for me, was not free at all.
1081501	The link to the free tax preparations is not working. Please note that the "get started" button is not usable.
1081645	My name is Jamon Brinkley. I live in North Carolina and I recently filed my taxes with the

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	e-file services. What I found out last week was that it only filed my federal taxes. I filed my state taxes with taxslayer.com last night. When it asked about my federal I left it blank because I have already receive my refund check. I received a email that said my federal taxes were rejected. What should I do?
1077122	Hi there, Regarding the free tax services. I am complaining about Turbo Tax. Although the advertised message is that all qualify as long as you access thru the IRS site, it is not true and there is no indication until you are finished preparing the taxes that a charge has been calculated. I have a degree in Info Systems and am not easily misled by advertisements regarding computer programs. I did my mother's taxes for her, and was very disappointed by Turbo Tax's misleading program. When I tried the H&R Block program, it was clear and concise and during the preparation advertised three instances for potential upgrade, but clearly stated this was an option. I finished the taxes with H&R Block and they were indeed free as advertised. Turbo Tax is sneaky and misleading. This is unfair to folks who trust the name to live up to its advertisement. Most importantly though, H&R Block now has my and my mother's brand loyalty. Senior citizens love to share stories about attempts to trick them into purchasing a product, and I am sure my mother will be relaying the success of H&R Block and the underhandedness of TurboTax. Thanks for the opportunity to relate a situation. Sincerely, Theresa
1083917	hello, every link I click on to try to get to a free efile website gives me an error message. please advise. Thanks.
1077298	I had started my efilng and cannot find it. I already have established a password for . Please help.
1076820	Can I file my tax return online for free directly with the IRS? If so, I am in your site but cannot find the free file with the IRS. Please help. Thank you. Maritza Facsimile: mbehney@hollyre.com www.hollyre.com This email contains confidential information. If you receive this email in error, please notify the messenger immediately. Thank you.
1073616	I paid \$29.95 for refund processing with 1040Now.net in addition to the \$19.95 Federal filing fee. As a matter of normal process, they required me to provide my bank routing number and checking account number for the refund to be deposited. The IRS website has shown that since February 18, 1040NOW.net has received my refund and informed me not to request any information on the status from them until February 25. As of yesterday, the deposit still has not been made to my account. Please find out why I have to pay \$29.95 and provide bank account information if I could have waited a little longer and had the IRS issue me a check directly. Gregory
1076881	I e-filed my Federal with eSMART a few days ago. When I efiled my State > return, I was charged \$9.95. I understood that by filing with an IRS.gov > approved site, efile was free. Now I have to correct my return and I'm > being charged another \$9.95. Is it a free service or not! I'm very > confused. Please advise as I'm in a hurry to finish my taxes. > Thanks,
1085126	Their wb page claimed I DID NOT have to pay for the state BECAUSE I think it was I bought the audit protection, but I fell I should at least be able to print the work I did. They won't let me have access to anything, and I don't have the email you mentioned and MY CREDIT CARD HAS BEEN CHARGED ALREADY and it will not be reversed because turbo tax is protesting...THUIS ISN'T FAIR! I just reread their link from your search page and it is till claiming everything IS FREE at our level of income. 20,000 with and AGI of 16,500...and because I had major surgery and couldn't care for my son, I found out yesterday from my physicians and attorney that I am already already accepted for SSI payments, starting next week. I couldn't claim this year the Child Credit. BUT the local help office here in my closest town says I can...AND THAT ALL MY FILINGS ARE FREE! I can not pay over \$100 for tax preparations. That's why I searched your page THE IRS for a free service...Yet they aren't free and it is still there... Km Price
1085538	<i>thought that I was on the free tax filing program w/ HR Block, but the end they wanted to charge me for the preparation. How exactly do you get on the online filing for free w/ HR Block?</i>

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1083737	I used the www. irs.gov/efile web site to access TurboTax free file. I used the "standard" form so there would be no charge (the premium form has a charge). My concern is that they are charging me \$24.95 when this was supposed to be "free". I have not yet e-filed as I didn't want to pay the \$24.95. I just now contacted them but do not expect an answer as last year they never answered a question I had (when I purchased their software).
1083761	While trying the TurboTax for the web free service, I found two errors in their programming. One, they are truncating some figures instead of rounding them. Two, in calculating the sales tax exemption, they are not taking into account the State portion versus the local portion. On my return, this would short me \$53. Before recommending to tax payers that we use these products, at least one minimum standard should be met - they should calculate correctly! I hope more due diligence is given in the future.
1089006	Turbo Tax is NOT FREE! I went through the program thinking it was, and I was so worn out when I was done I went ahead and paid for it, but please make this clear to future victims.
1088963	I am eligible for most of the free filing companys that you list. I have one problem. Which companys allow for support forms to be added to thier filing? I have to file two 4852 forms this year.
1089920	what website would I go to to file my state and federal taxes for free, all I keep getting are websites that charge \$20-\$30 to file my taxes. Please help me find the website conncted directly to the IRS.
1088896	Re: Free e-file. I used your site to file with tax\$imple.com, one of your recommended servers, and found it to be very unsatisfactory. I slogged through the whole form, and then, despite repeated attempts, was unable to send. I suspect that if I had purchased one of their products, you'd have my 1040 by now. Instead, I'm off to the Post Office.
1088824	When I filed my tax initially, I put in the wrong ss #. Therefore, irs did not accept because my name and my birthday did not match the ss #. I have fixed the ss #, my name and birthday were correct. This company now wants to charge me \$19.95 for service, it is their soft ware that will not allow me to file my return--it keep insisting that my birthday is wrong. My birthday is correct. There is no way for me to contact this company without paying.
1089710	I qualify for free e-file service with H & R Block. My income is less than \$18000, H-O-H, 1 dep child w/child care & eic. I could not file because the site was asking for a payment of \$29.95. Please help.
1074361	I cannot get past the preliminary page that I fill out to try to determine if any company will be able to file my taxes. Can you tell me what I am doing wrong? As for income, I should qualify since I only had employment earnings of under \$500 and Unemployment of 5 months. I should get a complete refund, I think. Thanks. Is there something I shuld do to get into the system?
1086605	I logged on to the IRS website and linked to Intuit s Free File via TurboTax. The IRS site clearly states that I will likely have to pay for my state return, but that I am under no obligation to pay for services from the company that I choose. I chose to pay for my state return (I knew about it up front). Now that I have already filed both my returns (and already paid for my state return), I am in the process of printing out my returns for my records. They are telling me that I must PAY to print out my federal return. That is asinine. What should I do? Brad bwilliams@aetllc.com
1091540	Instead of handing out a bunch of stupid information why don't you make it easy to efile like it is with telefile ????? I don't have any deductions other than the standard deduction and you idiots are telling me I have to buy software to get into the site to do my taxes. Why ????? Make the site simple, I'm not a tax lawyer and your site is impossible.
1076950	My name is Nora Peterson and I recently efiled my tax return through the IRS free file using H&R Block services. This is my situation. I contacted the IRS regarding my status and was told that my return was rejected because of a problem involving the second page of form 8283. I spoke with Patricia at 1-866-255-0654 an IRS representative. She stated

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	that all of the reasons my return was rejected was based on problems with this form. She stated that there is a problem with the second page. My return currently has a rejected status. She informed me that I cannot file my return via efile until my return can be accepted. After which I would receive a form 8453-0L. Please help my form is complete and sitting in the H&R Block program. I tried to email them but no response. Again to recap: the problem is with form 8283 the second page cannot be recognized by IRS via efile and therefore my return is being rejected. My phone is 757-593-7728 (cell). My home phone is 770-487-6290.
1077445	i filed my taxes online with the free file form of turbo tax. well, they charged me 19.95. the rest of my family filed through the hand r block free file and was charged absolutely nothing and got their refund within two weeks into their checking account. i was supposed to get mine into my checking account and for some reason it was supposedly mailed but i have not received it. i have not been happy with the turbo tax free file system. i know you will not respond but if a company was handled in this way someone would have to reimburse or at least be held accountable. jeremy
1077603	Hello, I selected TurboTax from your Free File online service and at the end it asks for a \$24.95 tax preparation fee. -If I would have known that when I started I wouldn't have filled out all my tax info. Please fix the website to say there is a fee at the end instead of free online service. Thanks, Danny Crouch Danny@Crouch.net
1078313	Where do you hide the links to companies providing free tax preparation? I've tried looking three times, and zip, zip, zip. You guys have a lot of talk about it, but no links. DeWurner
1073348	I've wondered for years why you don't make "free" e-filing truly free. Actually, I don't wonder, I know why. But you should provide a way for me to file that is truly free, where I don't have to go through a "service provider" who charges fees (some hidden) for their "free" service. TurboTax shouldn't be on your list. They charge a hidden "processing fee" for their "free" service. Eugene
1073405	Hello, I want very much to file my taxes for free, but when I used the IRS website to find the 'free services', and linked through to TaxAct.com, I received a popup message telling me I was leaving the IRS site. The IRS site led me to believe I would link to TaxAct.com via the IRS site, and that I could file for free, however TaxAct.com filing is NOT free. Does the IRS have any plans to make tax filing truly free for individual taxpayers? I had to resort once again to using the TaxAct software to calculate my taxes, print out on paper, and send via the US mail. That was the only way I could have free filing this year. The IRS website was not clear on the fact that the services don't provide free filing. Thanks, Parke
1081475	The IRSweb site says that there is a downloadable program to prepare and file income tax returns from our home computers. I could not find this program on the website to download. Where exactly is this program found? thanks, JG
1081567	i tried to use the efile on esmart and hrblock; however, i found it impossible to enter a user name. i tried realistic names for over two hours and then just tried randomly hitting ten characters at least fifteen times. hard to believe someone hit all those random characters. i have to assume they are trying to divert people from using the free service.
1073410	Dear IRS, Just some feedback on the website - free e-file section: I think it's great you provide this service. I tried twice to use your 'Guide me...' section of the service locators section and both times after I hit the 'submit' button, the screen came back clear with no comments or referral to an e-file provider - not good customer service! Tom
1073751	I went to the H&R Block link for e-filing which is supposed to be free however I was still charged \$29.95. They claim I entered through the H&R Block site but it did not happen. I will never e-file again. I don't care if it takes longer to receive my refund. They cheated me once and it won't happen again. Ever.
1073945	I used Turbo Tax to complete my return - through the IRS free file service. Once the return was done and ready to be filed electronically, they THEN tell you that you are being charged \$24.95 for your tax return preparation, and another \$24.95 to have your refund direct deposited into your checking account. To me, that is not FREE. They should be

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	removed from your site. They claim that it is FREE electronically federal filing for everyone and there are no restrictions for anyone. What a rip-off!!
1074042	I JUST HAVE SPENT 6 HOURS DOING MY TAXES THROUGH ONE OF THE "FREE" TAX SERVICES THAT I FOUND THROUGH THIS WEBSITE AND NOW THAT I GET TO THE END I SEE I AM SUPPOSED TO PAY 9.95!!! HOW IS THAT A FREE SERVICE?? I AM ANGRY! THIS SEEMS PRETTY CORRUPT IN MY EYES!!! IT DOESN'T SEEM THE WAY TO IMPROVE RELATIONS BETWEEN THE IRS AND THE PUBLIC. NO WONDER THERE IS SO MUCH DISTRUST. WOULD YOU LIKE TO EXPLAIN TO ME WHY ESMARTTAX IS LISTED ON YOUR WEBISTE OF FREE SERVICES? I FOLLOWED YOUR DIRECTIONS ABOUT GETTING TO THE SITE THROUGH YOUR WEBSITE, YET I AM BEING CHARGED. PLEASE EXPLAIN.
1074694	This year's website is harder to navigate than last years. Additionally, I could not get the free efile of TaxSimple to work for me and I am only using form 1040A. It was extremely frustrating and I will be sending my return in by mail.
1074832	Nice site. I tried the "Free File" option and went to TurboTax (which service I actually used)...BUT...what I didn't know until I was almost done that, while preparation and efilng is free, IF YOU WANT TO PRINT OR SAVE THE COMPLETED FORM YOU HAD TO PAY \$24.95!!!! I take that to be a deceptive practice. Please include that info in the TurboTax "more info" section. Other than that, I really liked TurboTax and will use it again. I just didn't like that bit of deception!

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Reference #	Question
1096276	I prepared and efiled my federal return and was under the impression that it would be free, but I was charged 12.95. I used the Freetaxusa.com website, it is deceiving because it says if you live in one of the qualifying states you could prepare and efile for free. I only made 4800 the entire year and I was charged . I never would of used that website if I would of been informed up front about the fee and how to be eligible for free file. I am upset about the deception.
1096204	To whom it may concern, I have a mere \$5800 income which I want to simply E-File. Your website is impossible. Please give me clear instructions on where to go in your website to do this. I managed to find a provider at one point and the first comment was to disable cookies. I am on my son's computer and I cannot do disable cookies. Can you simply send me to a form that I can put my numbers on and send? If not, why not? Bruce
1096283	To whom it may concern: If i'm living outside of the country, how do i go about filing my taxes?? Can i use your free e-filing system and give my address in the country i'm in?? Help, i'm not sure what to do! Kimberly
1100111	I used the IRS site to go to turbo tax for a free electronic filing. At the end entering the information they charged me for the turbo tax software and for electronically filing with direct deposit. Can you please investigate their practices. In order to file my return I had to either submit a credit card number to purchase the software or agree to let the danta barbara bank and trust to process the refund. Please email me with your findings. Terri DiGiacomo tdigiacomo@hotmail.com
1101384	I am 76 years old and retired. I had only 6400 income in 2004, besides my Soc. Sec. benefits. How can I file a 2004 return for free?
1101936	I was dissapointed yesterday when I signed on to get a "FREE" income tax service. I selected Turbo tax and right at the very end of the session is when I was told that it would cost me 24.95 to process the refund I was due. That, my friend, is NOT free.
1102958	I was in this website before and saw that TurboTax offered free tax preparation on line. However, I am not able to find it again. It said it was free only through the IRS.Gov website. Can you tell me how to access their site?
1102826	I was using Turbo Tax to do my Tax form. Note: It is supposed to be free but isn't they want me to send \$19.95. OK. I was doing fine until I checked for errors: It came up with "You Must Fix This Error" Schedule D: Cost or Basis-1 Please enter the cost or other basis for your Company. Here's my problem. When I retired from my company I keep 3 shares of common stock for old times sake. This was awhile ago, and it doubled once and I received 1 extra share of common stop making it 4 shares. I tried to find this cost of share for company and only document close to it is this. ESOP Plan Annual Statement dated 12-31-1988: Current shares above date was 509 shares. Of these shares 58 shares were contributed by company. Total Market shares as above date was \$32.75/share. Average cost of share \$27.761 from my participation date. last June I got a letter saying the company had sold to another company and I was to send 4 shares and would be reimbursed \$90 or \$22.50/share. I had to fill out a Substitute Form W-9 and a note added Failure to comply and return form I would be liable for a penalty of \$50 imposed by IRS. Back to the Schedule D error what do i put in the Cost Basis box Turbo Tax wants? I only have dates I sold stock back but no dates as to when I purchased them. I was with company 10 years. Do I use 12-31-1988? I know that \$90 is small amount and will have a little effect on the final tax computed. But I want to have minimum problem in submitted Form Schedule D. Richard
1103070	I was informed by an H&R Block representative that Free File will not carry information over to subsequent years... I found this out when I went through the IRS site to Free File, then chose H&R Block, then hit "returning users sign in here" I entered all my current year information only to be still be charged at the end. ***There was no indication during the H&R Block interview that I was not still on the IRS Free File line of filing. This is quite misleading and annoying and I felt just a form of trickery to get money from an unsuspecting taxpayer. I either HAD to pay at that point or spend ANOTHER three hours

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	re entering all the information as a new user.*** Meaning: When you use them as a vendor for the Free File program you cannot use them again in subsequent years unless you start all over again as a new user. So while it is nice that you can File for Free, it really is not a time-saver in any way because you have to re-enter ALL of your information each year. I think this should be specifically stated on the IRS web site so that other taxpayers do not have this problem. Now I'm out \$29.95.
1103064	I used Turbo Tax to do my taxes and my kids taxes. I electronically filed my taxes because I received a credit from Turbo Tax to do it. I do not want to use turbo tax to file my kids taxes because I do not want to pay the fee to do this. Where on your site can I just enter the information from the 1040 EZ?
1103852	You ask individuals to use last year's AGI in order to E-file their return. Mine > was a negative, (), number last year. Can I still use the number without the > negative brackets and E-file?
1103949	I used the free file company called Complete Tax. I accessed this through irs.gov. I made it a point to do this as I am aware of one other person who recently filed with Complete Tax and was charged a fee. They were told the charge was due to accessing the Complete Tax site directly. I however made it a point to access their site through yours. Still I was charged \$32.95. I contacted complete Tax twice via e-mail. Once on March 7th and once on March 8th. I explained the situation to them and a was kindly given the brush off. I believe this company is fraudulently using a bait and switch tactic to lure people into paying the fee. They wait until you are an hour into the software program and then drop the \$32.95 bomb when you are expecting it to be free. I have met all of the criteria for qualifying for free help. Can you help me?
1103976	Hi, I'm very disappointed that I cannot file my tax return electronically like last year. I do not want to pay another company to process my tax return when I can do this myself. I also do not want to buy software. Please change efile so individuals can complete the forms themselves without paying for a service or buying software. Sincerely, Brenda
1104163	I was mislead by your website and TurboTax. Now after I've spent a few hours filling in the information, TurboTax will not allow me to print or efile my return without paying them \$19.95. Here are the pages demonstrating the false information: www.irs.gov/app/freefile/jsp/index.jsp ? which leads you to www.taxfreedom.com which says the services is free. Why does the IRS and TurboTax advertise this as free?
1104136	It is my understanding that Turbo Tax is offering their software for free on free file no matter the amount of income, yet I know of someone whose income was \$103,000 and they were being charged \$29 for the Federal and \$29 for the State. Has there been a change in Turbo Tax's criteria for free file within the last month? Please advise. Thank you in advance for your response. Martha
1104743	I'm attempting to e-file and am unable to navigate the website to do this. at www.irs.gov , I'm anticipating a link to the tax prep software (referred to on page 3 of the 1040-EZ booklet) yet I can't find it. I've tried many of the links under the e-file rubric and all links are informative. where do I go for the ACTUAL filing pages and attendant software?
1104672	On the Free to File web page it states that H&R Block provides free federal tax preparation for "all taxpayers" but I was not able to obtain this free service because I was a returning customer. This was the response I got from them: In order to qualify for the free filing program you will need to sign in as a new user, creating a new username under a new account
1104929	I tried to use your Website option of free online through the cooperating provider of HR Block. HR Block appears to be misusing the alliance with the IRS. Firstly, my online return was rejected merely because the 1099-G for the California state refund could not be confirmed. HR Block's message referred me to file with a local office. Secondly, I have been receiving direct mailers from Citibank and Washington Mutual at a PO Box that I input on the tax return. Because the PO Box is used only for bills, it appears that HR Block had disseminated my address. The question also is whether HR Block releasing financial

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	data. HR Block does not have a privacy statement for the online questionnaire. In fact, the first page about lifestyle changes appears to be soliciting information for cross selling services. Also, the tax return cannot be deleted or deactivated despite my selecting the choice not to file with HR Block since the free online option had been rejected. And it is not possible to delete the birth date and social security in the file. Thank you for the concern.
1105235	I was wondering how come there is a charge to efile your tax returns when if you file them yourself (as I do) I don't have to pay a dime? Shouldn't this service be encouraged AND free of charge from the IRS as the old fashioned hand written forms are? Paying for monthly internet service is already a burden on the taxpayer, is it not?
1103907	I have tried to use e-file and when it comes to employer ID number I can't get all the numbers in the box. I work two jobs which are , and . My wife worked at in Muncie,IN and at in Muncie IN. could you please help me with there ID numbers. Thank You Rod
1105788	FREE FILE? Hello????- I went to turbo tax from the IRS site (which is very good) and started my "free e-file" then I had to quit. When I tried to resume a few days later I had a frustrating experience trying to get back to where I was. I finished my taxes to find that somehow my "free" e-file had a charge of \$19.99! All in all \$44 (includes state)is better than the \$240 I had been paying. I feel as though I have been a victim of a bait and switch! As usual there is no free lunch and the IRS is full of loop-holes the average person can't navigate.
1106388	I am trying to file a FREE tax return on the IRS.GOV website. It keeps referring me to other companies and I am afraid I will be charged a fee. Please let me know how I do this.
1106529	Your site is deceptive and erroneous. It refers to a free e filing when in fact the government is not even offering any services to taxpayers but refers them to private companys that steal all the information without any limitations. You should be ashamed of yourself for advocating this behavior. If you are going to advertise a free service through the taxpayers funded IRS, then the system should be run by the IRS and not outsourced to other private companys that can sell your information for their own money making purposes. If there is a system a taxpayer can use to directly file with the IRS without having to forgo privacy because you refer them to other private companys then make that available.
1106516	I have looked over the website and have not found a way to e file my taxes that is actually free since e filing must go through a "provider" who charges a fee. Is there a way to e file directly to the irs without paying a fee or using a credit card?
1106759	I was just checking out your free tax filing area where it shows the companies you can use for free online filing. I came across completetax.com but when I tried to enter the site, your site said I have to exit irs.gov and it may not be free if I exit irs.gov. What's the final answer on this? I'm looking to get my state and federal done at the same time but can't get a solid answer on if I have to pay or not. I only made \$6000 last year and it says I qualify. Jeff
1107063	I am registered with ezTaxreturn.com as: jgreenman I can no longer get access to my return information. when I "continue a fom" and say "no" to the repeated "valuePlus!" offer, I get the following message: Problem Encountered Error: GOTO Allowed Only Before Or After HTML Page. I have been unable to go further. I need to complete my taxes
1107091	Dear IRS, I dont claim to be an expert in the English language, but here are a few of the grammatically incorrect sentences on your web page. I am sure there are many more. Care to correct? If you have a technical question about the IRS.gov Free File site, need assistance getting around the site or wish report a Free File issue, please e-mail us at helpdesk@speedymail.com. Check out Free File your link to free online filing. Read very carefully. Both of the above need help Respectfully Paul
1107421	I started my tax return but where do I login to get it
1107531	Hello, I used the free file company called Complete Tax. I accessed this through irs.gov. I

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Reference #	Question
	made it a point to do this as I am aware of one other person who recently filed with Complete Tax and was charged a fee. They were told the charge was due to accessing the Complete Tax site directly. I however made it a point to access their site through yours. Still I was charged \$32.95. I contacted complete Tax twice via e-mail. Once on March 7th and once on March 8th. I explained the situation to them and a was kindly given the brush off. I believe this company is fraudulently using a bait and switch tactic to lure people into paying the fee. They wait until you are an hour into the software program and then drop the \$32.95 bomb when you are expecting it to be free. I have met all of the criteria for qualifying for free help. Can you help me? Thank you. Michael
1107733	Hello, I just did my taxes with Turbo tax via your web site and the free file part of your site and now they are wanting to charge me. What is going on? Juan
1107835	Dear IRS: I read in many newspaper articles that I could file my tax return free with you my entering your website. I know it is costly for the IRS to process manually prepared tax returns so I wanted to be able to e file to keep costs down. I filledin that form giving my age 83 and wife's age 85 and all the other information requested. I presume my AGI was too high.
1107842	Upon the recommendation of the IRS, I sought to complete and e-file my federal return through Fileyourtaxes.com. I did so based upon the following advertisement posted on the IRS web-site "FileYourTaxes.com is offering Free Federal tax return if you are living in Arizona, California, Delaware, Georgia, Illinois, Maryland, Michigan, New Jersey, New York, North Carolina, Ohio, Oregon, Virginia, Wisconsin (as verified by the state you use for your mailing address at the top of your 1040 tax return) . . ." I am an Illinois resident and qualify for the free filing service based on this advertisement. After taking the time to input all required information, Fileyourtaxes.com sought to charge me \$27.50 without any explanation whatsoever and is presently holding my return hostage until I pay this amount with a credit card. I am not faced with the dilemma of giving into this or going to another service. Either way, I have provided my confidential tax information to a service provider that seems to be engaging, with the assistance of the IRS, in fraudulent advertising. What can the IRS do to correct this problem?
1108116	YOU INDICATED THAT THIS COMPLAINT (SEE APPENDED E-MAILS) WAS BEING REFERRED TO AN APPROPRIATE DEPARTMENT IN THE IRS. IN CONNECTION WITH THIS COMPLAINT, PLEASE SEE AND SHARE THE ATTACHED EXCERPT CUT AND PASTED FROM THE WEB PAGE OF FILEYOURTAXES.COM IN WHICH THE PROVIDER IS INSISTING ON A CHARGE OF \$27.75 FOR WHAT WAS REPRESENTED TO ME AS FREE E-FILING OF FEDERAL RETURNS FOR ILLINOIS RESIDENTS (WHICH I AM). PLEASE SHARE THIS WITH WHICHEVER DEPARTMENT IS INVESTIGATING THIS MATTER. I HAVE TRIED MULTIPLE TIMES TO REACH THE SERVICE PROVIDER TO NO AVAIL. THANK YOU. STEVE (E-MAIL: SRKARL@WOWWAY.COM, TELEPHONE: STEVEN Before FileYourTaxes.com can eFile your return or make it available for printing, you must pay for the construction of your return as detailed below. If your return is being eFiled, and your return is not accepted, you will be able to make your changes and eFile again without being charged again. If you uncheck a checkbox, you will not be charged for the construction of that portion of your return, it will not be eFiled, and you will not be able to print it. Please select the parts of your return you would like to order. Federal Return \$ 27.75 Form Delivery On-Line Download - No chargeUS First Class Mail (Domestic) - \$9.75FedEx 2Day US Dest - \$18.50Certified with Return Receipt - \$21.50FedEx Standard Overnight US Dest - \$29.50 Please choose how you will pay FileYourTaxes.com its fees. If you are not making payment, please select Credit Card. Credit Card (OnLine) - No Additional Charge Pay By Check (using snail-mail) - \$12.50 Handling Charge Deduct Fees From Refund (RAL or Refund Transfer) Some data will have to be re-entered Additional fees will apply
1108146	I read in many newspaper articles that I could file my tax return free with you my entering your website. I know it is costly for the IRS to process manually prepared tax returns so I

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Reference #	Question
	wanted to be able to e file to keep costs down. I filled in that form giving my age and wife's age and all the other information requested. I presume my AGI was too high.
1108096	I just did my taxes with Turbo tax via your web site and the free file part of your site and now they are wanting to charge me. What is going on? Juan
1108199	You have a link to Turbo tax and they advertise as free, they do in fact charge. They should not have a link to a government site. It is free advertising and FALSE advertising. I trust my government will investigate this matter and stop giving companies that take advantage of people for advertising. Sue Ann Colvin Portland, OR
1108218	First I went to a local Fudicial Tax service to have the returns done \$155 later I was appalled by their unprofessional service and bartering system for preparation fees! Started asking for \$250 for preparation - I said no way and they settled for \$155?? Strange practice. They had been very odd so I did not allow them to file it. Now I have gone to the IRS.gov site to do it myself and chose turbo tax to file. Well they want 24.95 to file a state return - I find this out after taking 2 hours to file the federal! So I go to esmarttax.com to do the state for 9.95. They require you fill out the federal - I spent 2 days trying to process the forms and for some reason they will not allow the Oregon form to be filed without the federal form which I already filed with Turbo tax. Cannot double file the federal - So now I have wasted time and energy for nothing. The "Free tax filing" links are very misleading. I am furious and tired. E.
1108442	I thought you were supposed to be able to file your taxes for free. I logged into Turbo tax and then they kept reminding me that using their software was free but to "print or e-file" I would have to pay. What's up with that?
1108524	The 123EasyTaxFiling.com online return was not accurate. It said no tax due and no refund. Not true. I used another site and got a refund. Also, how can saying "Free On-line e-filing" and then charging me \$50 not be a deceptive practice. Not happy about this.
1108271	I CANNOT LINK TO TAXACT.COM THROUGH THE IRS WEB SITE. I SUCCESSFULLY DID MY INCOME TAX USING TAXACT.COM. AND E-FILED FOR FREE. NOW I AM TRYING TO DO INCOME TAX FOR A SON WHO'S AWAY AT COLLEGE, USING TAXACT AGAIN. THE IRS WEB SITE COMES UP FINE BUT WHEN I TRY TO LINK TO TAXACT.COM I GET "THIS PAGE CANNOT BE DISPLAYED." PLEASE HELP--OTHER PROVIDERS' HOME PAGES DO COME UP
1108562	I ENTERED TAX INFORMATION FOR CHARLES BASKERVILLE AND I ENTERED INFORMATION SO THAT I COULD SAVE THE INFORMATION BUT I HAVE LOST IT. HOW DO I BRING IT BACK. I USED AND PASSWORD . HELP HELP HELP
1108576	TurboTax would NOT let me print before filing - It wanted me to pay for the \$24.95 for State before I could print my Federal! Can you recommend different free file software that allows you to print your Federal (without paying a fee) so you can look at it BEFORE you file? I do not want to go through entering all my data again and then being told I need to pay to print it. This is why I am asking you. I qualify for the following: onlinetaxes 1040now eztaxreturn freetaxusa esmarttax taxengine taxact tax\$imple taxnet h&rblock Thank you. Michele
1108965	I read an article that said that, if accessed through the IRS website, TurboTax was free. I can't find the link on your official website. Would you please advise. Thank you! Suzanne
1096364	I am looking for the free internet filing for my son. the address I had { http://www.irs.gov/app/efile/jsp/index.jsp ? } is not working can you give me the correct one? Thank You, Carla Barber
1109462	I used the TAXACT program that I was guided to by the IRS site. The promise of one free federal e-file was difficult to find. This site leads you through the tax preparation process and then wants credit card info to charge \$7.95 to e-file. Never could find the free file. Very confusing and apparently a rip-off of the free-file promise.
1109587	when you link to H and R Block through the irs.gov site your federal tax return is supposed to be free... however, if you have a past account with H and R Block, when you log in and file they charge you \$30.00 (which is actually more than the advertised price on their

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Reference #	Question
	regular site. seems like a scam. i appreciate the fact that you can file electronically through the government link and was a bit distrubed that i would get charge more than the regular rate simply because i filed with them previously. in any case i thought you might want to know.
1110421	Are there any sites listed on your home page that will e-file both Federal and State tax returns? I live in North Carolina and have prepared my tax returns and want to file them via e-file without occurring any charges.
1110420	I cannot believe you referred me back to your web site for help when I clearly stated I had the issues I stated. I needed a specific answer not another visit to FAQ's that did not answer my questions. So frustrating to get the same canned answers about FAQ's from you and each of the web sites I searched before I sent the email.
1110544	Taxact.com charges \$7.99 for e-filing!!! It is not free!!!
1110815	All Dead links to Free Tax service companies. Non of your links with take me to the tax services. Why? Will not leave IRS site though those links.
1111260	We spent hours preparing our tax return on H&R Block's free e-file site only to have them tell us that there was an "issue" with our return and that we either had to print and mail it or pay \$19.95 for answers on how to fix the problem. I think that H&R Block should be required to give specific Comment
1110984	This relates to free file: I followed all instructions and used Turbo-Tax throught the tax freedom > project to enter a federal return - they assured me it was free to e-file > and even let me print out copies of my completed forms. Now that I am coming back to my return to e-file it, they are trying to > charge me \$20. I followed all of their instructions to fix my specific problem and > nothing worked. (I am not a computer novice.) I can go through the process of re-entering all my data again with another > company, or I can just pay the "ransom" and file my return now. You should not even link to companies that conveniently find a way to > "forget" that they promised users free federal filing. Even if this merely a "technical error" on the part of TurboTax - it turns out to be a > scam, because people will still accidentally get charged and it is an > uphill battle to avoid paying the money.
1111325	Hello, I am a very unhappy customer. I went to the H&R Block website through your webpage and filled out my taxes twice because each time it suggested I needed to pay. I am a student who like others doesn't have time to waste. The H&R block people now tell me in order to get the free services you have to 1. create a new account (can't reuse from another year) and 2. NOT import any information. I have NOT found where on your website this says this. Could you please make this change to your website. I am afraid H&R Block is MISLEADING thier customers and am NOT happy with this at all. Thank you!
1111394	Please be advised that the site taxnet.com does not provide free efilng. They continue to find issues with the return yet the same return under a different name when you purchase your state tax for 19.95 works. It is also a very slow and tedious compared to other sites. I would not reccomend that you post this site as a reference. Fred.
1111562	Last night I filed my brothers return for him on the gov. web site sent it electronic with turbo tax. I went back the next day to confirm but could not find it? I have the softward Turbo Tax...it saved mine but not his. Where can I go back in and confirm the e-file status?
1112047	I used the Turbo Tax free efile service to file my tax return. I have a complaint. The federal return filing is suppose to be free but when you click electronic file, even you check the box federal only, they still required you to enter your credit card information. I don't think it's right since the federal filing is free, if user click federal only, then this credit card screen should not appear. They don't let you bypass the screen, you have to fill in the info. This is not right. I'm for the IRS to have their own free filing software, instead of going thru these 3rd party provider. Thye must change this screen to allow federal only filing to not have to input the credit card info. This is not right!

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Reference #	Question
1113005	<i>Hello: On the IRS website, it lists Taxslayer as a free service to those who qualify for the Earned Income Credit. I was surprised to be prompted for my credit card number, but I provided it because I didn't want to hold up the processing of my return. I assumed that they would issue a credit to my card when the mistake was pointed out to them. The three emails that I have sent in the last six weeks to their help desk have been unanswered.</i>
1113170	<i>Hello: On the IRS website, it lists Taxslayer as a free service to those who qualify for the Earned Income Credit. I was surprised to be prompted for my credit card number, but I provided it because I didn't want to hold up the processing of my return. I assumed that they would issue a credit to my card when the mistake was pointed out to them. The three emails that I have sent in the last six weeks to their help desk have been unanswered.</i> Stanley
1113437	<i>I am trying to use your help to find a company to efile. I am single. You ask an if question about my spouse's age. There is no way to answer numerically, which is required. What do I do?</i>
1113519	<i>I started my free TurboTax return and log off to continue research for a IRA that did not DL. How do I return to my e-file? I cannot fin my file. Also, I am hearing impaired so I do not use the phone.</i>
1113812	<i>I'm confused about this site. Your main point seems to be these services (even by H&R Block, Turbo Tax, etc.) are free AS LONG AS WE STAY WITHIN THE IRS SITE. But in order to start the tax calculations with either of these sites, you are asked to click on a box that says you are leaving the IRS Site and then as soon as you do, Turbo Tax and H&R Block start talking about their various "fees". How can I be certain that using this free service is indeed "free" Thank you. Gene and Eva</i>
1114074	<i>I have just spent over an hour inputting my tax information using your "free" referred service by Turbo Tax. I am then told I have to pay for the premier service to be able to input an IRA deduction. THIS IS FALSE ADVERTISING! I was not told this ahead of time. I believe this practice is very deceptive and wrong! Turbo Tax also fails to tell you up front how much they charge for state returns.</i>
1113712	<i>I experienced a problem with #1 Discount Tax Return Service. It would not allow me to complete my return because it was "too complex". The issue in question was IRA contributions. If one submits Yes for the question about making IRA contributions then the service will not complete your return nor allow one to log back in. I suggest that you remove this service as an option for free tax returns in the future.</i>
1100135	<i>I have a complaint regarding a company you link to: Under the banner Free Filing , the company OnLineTaxes.com: They took my personal information and wont allow me access to there site. There online support was of no help.</i>
1100467	<i>FAQ I read/heard somewhere that there is tax preparation software available on the IRS website. However I can't find anything. Please advise, thanks.</i>
1100564	<i>I was just in the web site for "FREETAXUSA" which is one of your appoved sites. The software for this site locks in a "AK" for state (doesn't permit user to enter needed state info, in this case "VA") the 8453OL came up with Alexandria AK and would not permit me to correct. (there is no phone # for me to call for assistance on this web-site). The web site timed out and would not let me log back in evan using the return email info for logging in. This web site took me personal info, I can't use it to submit, because it's the wrong state that will print on 8453OL. I don't know if they will charge me the 9.95 now. They have totally wasted and hour of time and created a lot of agrivation for me. Now I have to choose another provider and start over. They are worse then usless, they are a negative to your goals.</i>
1100631	<i>I e-filed my tax retern using http://www.expresstaxrefund.com/lc/, which i got directed to from your site, and EVERY page i clicked on to file my taxes said nothing about cost or having to pay to use this. Well i checked on when i can expect my return today and was greeted with this page</i>

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Reference #	Question
1100916	I would like to point out misinformation regarding the Free File service advertised by H&R Block. At your website's "More Information" link for their service found at http://www.irs.gov/app/freeFile/jsp/company_detail.jsp?PROVIDER_KEY=hrblock it states, "Fee-based Offer Information: If you do not access H&R Block's Free File Program through this IRS.gov Free File Alliance website, then a fee for the program applies." I followed the link from the IRS.gov website, and spent several hours inputting my tax information for 2004. I was suprised to find at the end of this that H&R Block wanted to charge me \$30 to e-file my federal return! I emailed the company to ask why and they responded with the same text contained in your "More Information" link with one exception: "Fee-based Offer Information: If you do not access H&R Block's Free File Program through this http://www.hrblock.com/goto/ffa Free File Alliance website and register with a new account, then a fee for the program applies." I think it is important that the IRS site mention this additional condition of using H&R Block's Free File service so other taxpayers don't waste several hours like I did. Kind Regards, -Matthew
1100154	Hi, I tried some of the e-file software (for the first time) and found it all to be cumbersome and confusing. Too many questions over and above a form 1040. It is simpler/easier to fill out a 1040 and other forms manually, then mail them to IRS. All the software seems to be not very user friendly.. I will do my taxes manually and mail in as usual.. Thanks anyway.....
1101176	My nephew and I went through the IRS website to do a free filing. It was my.tax.no1discount e-file tax. And now it's gone. We need to complete the filing, could you help? Thanks Loretta
1101303	TODAY I WENT ONLINE TO FILE MY TAXES USING FREE FILE WITH THE ABOVE ALLIANCE COMPANY HOWEVER, WHEN I GOT TO THE END, THEY WANTED TO CHARGE ME \$7.95 TO SUBMIT MY RETURN. I TRIED CALLING THEM BY PHONE BUT THE LINE WAS CONTINUOUSLY BUSY. I DECIDED TO CANCEL MY RETURN WITH THEM AND USED ANOTHER ALLIANCE COMPANY THROUGH YOUR WEBSITE.
1100463	Helo. My name is Amy Johnson. I did my taxes online, but I neglected to make a copy of my return for my own records, and I cannot find the site where I filed. How can I access my records if I do not remember the site where I filed? Thanks for your help. Amy
1097771	Dear IRS: For years now I've wanted to file electronically. I have been using commercial tax preparation software to calculate my taxes. These software packages all require a fee to file electronically. Why should I have to pay a fee to file electronically? Answer, I won't. I'll print them and mail the whole thing in rather than pay \$29.95! Filing electronically saves the government time and effort. Please require that all companies like turbo tax who offer tax preparation software also provide free e-filing for federal and state returns prepared by their software. The current situation is costing both of us money! Please inforce a different model that encourages us individual tax payers to e-pay. Thank you Rick
1097899	Just to let you know, I went through your website for free filing to Turbo Tax. I am being charged preparation and filing fees for both federal and state taxes. I contacted Turbo Tax and they tell me that I need to start with Statetaxfreedom.com. If this is typical practice, why is the IRS stating that it is a free service? Sincerely, Dana
1097936	Sorry, I found filing on your e file was more difficult then going the paper route. One place they told me they don't accept my browser, next one, even though it was to be a free site wanted to get paid. Tried a couple more and with all bad results. It was easier and faster making out the 1040A on paper and mailing it to MO. Hope you can pass this on to the IRS people and let them know I think their computer filing is for the birds.
1098102	I tried to e-file our 1040 with 2 of your IRS web partners advertised as FREE. One was going to charge me \$99, the other was going to charge \$25. I'm not paying either. My husband and I are due a refund, so we are mailing it in. Why advertise "FREE" if they are going to charge? missadmin@aol.com
1098938	I went to your web page throught the IRS web page on the fact the hook was free tax

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Reference #	Question
	preparation and e-file, no restrictions. WOW, now I click to get started and find I will not pay any thing until I am ready to file. FREE, right
1099087	I used the IRS Free File web site to do my taxes this year. The Tax program I used was TurboTax. It took about an hour and a half to complete my taxes. When I clicked on the next button to E-File, the next page directed me to a page with a . This page asked me if I wanted to process my return through them. I thought this was part of the IRS processing procedure. If I chose no, I thought my taxes that I just spent 1 1/2 hour on would not be processed. I chose yes. In the tax form, I did enter my local bank routing number & my account number for a direct deposit. What actually happened was my tax refund was sent to and they sent it to my account at my local Bank. They deducted \$46.27 from my return for processing fees. I feel this is a scam. should not be on the IRS or TurboTax secure web site. I feel the way they portrayed themselves was deceiving & should be illegal. My computer has a program for blocking pop up ads so I feel this was not a pop up ad. In summary, I assumed my refund was going to be direct deposited into my account directly from the IRS by using the Free File Program. has no right to part of my refund! The only contact # I have for . This letter is being sent to IRS, TurboTax, Consumer protection, Better business Bureau, . Sincerely, Elizabeth
1099378	I recieved my confirmation of acceptance and then went back to turbo tax with the free filing option to complete and print it is asking me for \$19.95 and does not give an option for the free file ??? not sure what to do ? please let me know if I need to do something different.
1099614	Hello - I do not know if this is the right place to send this to but, I would like to express my concerns regarding a company that your site recommend for free online tax filing. www.taxnet.com Here is an account of my experience with Tax Net Inc. This company provides online filing of state and federal returns for individuals who have relatively simple tax needs. The federal return is free, and the state return is \$19.99. While using the software, the user can log out and save their information if they need to return to the software later. I began to use the Tax Net software to file my 2004 state and federal returns. Everything was fine until after I entered my credit information to pay for the State return. The software asked for some information that I did not have on hand, so I saved the information and logged out. First Charge: \$19.99 The next day, I logged back into the software unaware that I had already been charged \$19.99 for the first time I entered my credit information. Because I was under the impression that site does not save credit information for security purposes, I re-entered my credit information again. Second Charge: \$19.99 After re-entering my information the site window froze twice (whether or not it was my computer, I don't know). I then re-entered my credit information two more times, not realizing that I was being charged for every attempt. I ran into further complications with the software, and logged off again. I became aware of 4 charges to my bank account the next day, and immediately contact their customer service. Keep in my that my tax return was never finished or filed. After about 15 e-mails, I heard back from their customer service saying that " We will investigate your claim and reimburse any multiple charges." After several more e-mails in response, I heard back from again saying that my charges that are in queue in my bank account are "just submissions, and that I will only be charged once". I'm now out of \$19.99, and I have \$60.00 pending in my bank account, with no further response from customer service. I just want my money back, as I never finished my return. Thanks Jordan jschultz@marantz.com
1096450	I selected turbotax from the list of free file companies on this website, but when I finished the return they would not allow me to file the return without paying a fee. If you want to encourage people to file electronically, you need to stop companies from doing this.
1096619	I was under the impression that I could file my return on line at no cost but I had to use the H&R Block site and after many hours of working with that site I was informed that there would be fee for this service so I will file through the mail again
1096959	I used your free file web page to connect to the H&R Block site and entered all my

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Reference #	Question
	information in, got to the final step and found out I would have to pay to file. When I contacted H&R Block they told me there was a charge because I clicked on the returning user icon. I feel this is false advertisement and that they should not be listed on your site if they are going to be deceptive.
1096974	I heard about that some places where can we go for free tax help and electronically file. please let us know this volunery filing places and there timings in. any near by city. thanks..
1097104	I do not think you should link to fileyoutaxes.com on your website. I followed the link and they charged me a very large fee for filing my taxes that they refuse to refund, despite the fact that they offer free federal tax filing through your website. They are a very dishonest company and do not deserve your support. Thank you.
1097187	I tried to e-file free. I went into irs.gov and then to HR Block and at the end they ask how I wanted to pay. I made less than they said you had to use free e-file. When they ask how I wanted to pay, I signed out of their website. When I signed back it it said not filed. I only want to use if free. I will not pay. So hope that was cancelled, when I did not agree to pay.
1097240	I just recently finished my taxes through e-file, I went to TurboTax through irs.gov site and now they ask for promotional code or I have to pa 29.99. Is there a code or am I doing something wrong?
1097338	I have been trying since 7:00 am (this is Sunday morning) to access the providers in Free-File and this is after t-3 hours yesterday. After I click on "Start Now" it proceeds to open the page, the blue bar at the bottom of the page fills and appears to have finished but then it hangs up. I have left it for up to 30 minutes thinking it is just my slow access time--I'm on primitive dial-up since I don't use my home computer so much on the internet and I admit it's slow. I'm somewhat "technically challenged" especially when it comes to the internet so I don't know if there's some setting that I need to modify or if there are just too many people trying to access the site and I just have to get lucky or buy TurboTax.

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Reference #	Question
1124278	My name is Jacqueline I want to know, Can I cancel of turbotax. Therefore, the IRS would refund of my copy fee?
1124284	I was guided to a website from the free file guide service and it was completetax.com. They claimed that if my adjusted AGI was less than \$28,500, my return preparation would be free. My AGI ended up being under \$10,000 and they then tried to charge me a fee of \$33 to file/print my tax return, is there anything that can be done about this. I have contacted them and they have not responded to me. Thanks Jayson
1127816	http://www.irs.gov/app/freeFile/jsp/index.jsp? "TurboTax : Free federal online tax preparation and e-filing for all taxpayers. No restrictions. Everyone qualifies. More details " This is not true. Not everyone qualifies. There are indeed restrictions. We continue to receive complaints from customers believing the Iowa Department of Revenue is the IRS. Customers would like to complain about the marketing verbiage being used but do not know whom to contact. Can you provide me with a contact? Renee Mulvey Information Specialist Iowa Department of Revenue
1129912	I don't need any assistance in figuring my tax, and I sincerely wanted to file my return electronically. I would've done it if I could deal directly with IRS. Unfortunately, the only online option your site offers is via various intermediaries. I refuse to give my information to any and all of the companies you force taxpayers to use. Therefore I will file my tax return on paper, and I will keep doing so until IRS creates an option to file the return electronically directly, without helping any private companies to make an honest (and a dishonest) buck.
1130028	I don't understand this free filing partnership. You say you must stay on the irs.gov site in order to partner up with one of the companies that you show offering free filing, but in order to access them, you must leave the irs.gov site???? Is this a trick?
1126167	I efiled my returns, both federal and state. The website state free federal returns filed. I paid \$19.95 to have my state filed, however, there was a glitch in the system and I have yet to get them to efile my state return. They want ME to order a paper copy from them for another fee. I do not feel this is proper and would like YOU to take them off your list. I do not feel they are doing taxpayers a service and advertising the wrong thing. I would just like them to get my state taxes filed as promised on their website. What can I do now? Thanks
1126281	Hello, I just want to let you know that you should consider taking TurboTax off of your website as a "free" e-filing system. Yes, to actually use thier site for federal tax preparation, it is free. But in order to electronically file your return and get your return via direct deposit, they charge you \$24.95 (on top of the \$24.95 for State taxes). You do not find this information out until the very end of the filing (which took over an hour). I just think that you should note that on your website where you provide the link. It would save a lot of people a lot of time. thanks.
1126454	The Online service listed on your Web Site " Freetaxusa.com" is one of the worst service companies I have ever tried to work with. They take your money to process your return and collect payment without any problems. I cannot access the required documents to fulfill my obligations to complete processing through your agency. I was informed that I need to complete a form 8453-OL and mail to you. The Print /Download link on Freetaxusa is none existant. I only get a error stating Web site can not be found, yet they can process all my information and collect a fee with no problem. Please,Please either remove this listed service from your site and warn other consumers of the problem or inform them to get thier Web site operating / functioning correctly. What do I do now ? Mail my return to you guys as normal ? Hope and pray I do not get charged a late fee of some sort ? Please inform me with whom I may speak to about this situation. I utilized a service which was recommended on the IRS web site and now regret it. Thank you for your time and assistance.
1126502	I am not requesting assistance, I am notifying you that YOUR Website states > these websites are free!! Your Website should remove Turbo-Tax from the > free list or it should

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Reference #	Question
	explicitly state what will and will not be charged. > If this is not within your level of job description, please refer my > comments to the proper channels. >> Thank you, > Karen > ddunbeck@cox.net Dear IRS Support Team, As I stated in my earlier e-mail, I used the Turbo Tax web-site via your free file web-site, www.irs.gov. I believe the date was 3/11/05, the same day I first notified you. Your web-site states the service is free and yet after I input all my tax information, I was unable to input my IRA information to obtain a deduction unless I upgraded to Turbo Tax Premium for \$29.95. No where on your web-site does it state I can't claim a simple IRS deduction without paying a fee. I can't tell you how frustrating this is when the service was advertised as free and then Turbo Tax makes you pay. I e-mailed the Turbo Tax Customer Service Department the same day I notified your department but as of yet I have received no response. The IRS is essentially giving Turbo Tax free advertising to millions and millions of people, and Turbo Tax is taking advantage and abusing this privilege by finding any way possible to charge and price gouge consumers. Please contact me at ddunbeck@cox.net or call me at (760) 941-4928. I also feel the price for the state tax returns should also be listed on your web-site so consumers can compare prices. Thank you, Karen
1126628	You need to take the link to H&R Block's web site off your site. After going o their site and selecting the FREE filing option and filling out my entire federal tax return they want to charge me \$29.95. I did not select any extra services nor filed a state return. H&R Block IS NOT FREE ! End
1126899	Look I know you are busy and I have limited time. I have filled out my fafsa, they need my tax info. I need to fill out fafsa completely asap to recieve additional and prompt benefits. I am sorry if my questions have answers somewhere and have inconvenienced you in any way. Also I apologize for my procrastination and pressuring you to respond quickly if not immediately for my personal benefit. I am trying to file my state and federal taxes free! No charges. Where do I go to do it online? How can I figure out the last year I filed and what my earnings and returns were? Also if you know, how can I get my birth records which include my birth time? Thanks. Hope to hear from someone soon. Thanks Again Jessica
1127202	I was deeply disappointed about the H&R Block's free e-file advertisement on the IRS web site. It was claimed that "H&R Block: Free federal online tax preparation and e-filing for all taxpayers. No restrictions. Everyone qualifies. More details: H&R Block Free Offer and Company Information: From H&R Block, America's #1 tax preparer: Use our FREE online federal tax return program and trust H&R Block's 50 years of tax preparation experience to help you maximize your refund. Our online program is FREE for EVERYONE - no restrictions. And you get A fast, secure online program where you answer easy questions. Automatic error checking and automatic completion of all forms needed to prepare your return. Guaranteed 100% accurate calculations or we pay penalties and interest. FREE customer support via e-mail. Access to tax professionals if needed. Ability to e-file your tax return for FREE to get your refund fast. A FREE customized Block Advantage report for help planning your financial future. Fee-based Offer Information: If you do not access H&R Block's Free File Program through this IRS.gov Free File Alliance website, then a fee for the program applies. Want to get started? Close this window and click the H&R Block link on the main page." As you see the only required thing was to access their web site trough the IRS web site. I did, and did the taxes (it took almost a day for me) but at the end they did not let me file the tax return for free!!!!!! I think the problem was that I was a returning user (from last year) but then they should have mentioned it somewhere that I won't qualify!!!!!! I m sorry to write such a long comment. Probably by now you understand my frustration. I either have to find an other free e-file provider, and start everything all over; or I have to pay for H&R. I wish you could do something about it, at least take H&R Blocks down from the IRS web site since they are liars and I don t want anyone else to experience the same problem. Thank you for reading my comments and let me know if you can do anything about this matter. Sincerely, Edit
1127694	I don't think this free e-filing exists as advertised by the irs and those in > the tax alliance.

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	As a mac user, I have only tried those that enable with > those system requirements. After finding such services for mac users, I > have been unable to register to begin filing. The link buttons are > inoperable. It's almost as if because I have come through the irs site, it > won't let me register and free file. This whole thing is a joke and has been > a huge waste of my time so far. > > Additionally, I have contacted at least one of the services 1040now.net to > notify them that they did not have all of the necessary forms. They have not > responded to my email within the time that they advertise, 24-48 hours. > > The irs should provide a service for efile. These private services are > terrible and now they have some of my personal information. > > Just thought you would like to know my experience. Also, I would recommend > that you remove the free filing teaser on your site.
1118542	I attempted to use your online service to submit my federal income taxes. I found it very confusing and time consuming. I only wanted to have my tax refund direct deposited into my account and your web site automatically selected a Refund Anticipated Loan. I did not choose this option nor did I want this option. I do not think the tax form was transmitted to the IRS but I do not want it to be. I do not want the Refund Anticipated Loan option, I only want my refund Direct Deposited. Please delete my file and information for I will use another method to submit my taxes. If you have any additional questions please call 410-665-5966 or email me. Please send me a confirmation informing this has been taken care of. Thank you.
1121178	Why is Turbotax trying to collect \$14.95 from me? I thought it was free to file your federal return by mail via this website.
1121218	Hello, Would you please remove the link to the site https://secure.tax-engine.com/ (Tax Engine) from your list of on-line filers? After reading through all the small print and agreements on that site, I spent some time using their worksheets to prepare an on-line return. Upon finishing, I was informed that, although federal filing was free as promised, the only way to file the federal portion of the return was to pay the fee for processing the state return. I'd read carefully before beginning - this was not mentioned! It's a scam relying on customers frustration after putting in the time to fill out all the forms, and I don't think you should provide business for them by linking from your site. My email to them about how to get the promised "free return" is yet unanswered. Thank you, Melissa
1118710	Hello! This year was my first attempt to file using the IRS.gov website using free file. My federal tax return was accepted, but my state return was rejected. I know what the problems are: 1. Turbo tax didn't prompt me for tuition reimbursement so it was missed 2. I didn't realize that turbo tax was going to automatically enter the state income tax for deductions, so I accidentally entered it and now it's deducted twice. Now I'm confused as to what to do, can you please help today by emailing me back?? THANK YOU!!!
1118738	https://mytax.no1-discount-e-file-tax-return-service.com/login.afp?af=02210320-1 is a website that you have on your website as a free federal e-file address. They intentionally state the standard deduction wrong and then try to charge when you contact them about it. They are not supplying the service they state. I would recommend that it be deleted from your suggested websites
1121142	I filled out my Federal Taxes on TurboTax after accessing it through the irs web site. When I want a hard copy of the Federal form before filing I am expected to pay 29.95 for the privilege of seeing my own tax file! What's the deal?
1134207	Hello My name is Rosemary . I would like to use the free efile program you offer. I am unable to find what to click on to simply send you my form. My taxes are simple all I have is a W-2 and Interest and Dividends less than \$400.00. Is there a way to simply fill out the form and efile it to you or should I just put it in the mail as previously done. I have been reading your site for several hours and am nowhere. Please help. Thank you. Rosemary lgrm6@pgtc.com
1134101	I used FreeTaxUSA to file my taxes. I was unable to print my returns or get any answers to the help questions. I hope this company is legitimate, because they have all my personal information now.

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1134986	I recently used Turbo Tax through the IRS FREE File website and link. After completing my "Free FEderal forms", I continued on to the State part. At the end process, Turbo Tax charged my 24.95 to do my State taxes. Then to file both State and Federal Electronically, another company (santa Barbara Bank and Trust) charged my an additional \$25. I thought it was suppose to be a free file. I can understand at least charging for the electronic file, but the charged more than if you just went on their website (Turbo Tax for the Web) to file both Federal and State! Granted I have the money to pay the fees, but what about the people who don't and get suckered in the paying them. I used Turbo Tax in the past and like their format, i just wasn't expecting to pay their high fees for the State file. I think they doubled it just because you were getting the federal file for free. Someone should look into this
1134926	Dear Sir: I have tried to use the free TurboTax for the web, through your irs.gov site. However, though it is advertised as free, it will not allow me to print or e-file even my FEDERAL return without charging me \$24.95 plus tax for my state return! ALL I WANT IS A FREE FEDERAL TAX PROGRAM! Nothing on the irs.gov site (that I can find) indicates that TurboTax charges this fee. Your site just says, "You may have to pay to file your state taxes." The fact is, you have to pay whether you use the state tax feature or not, unless you meet state eligibility requirements, which I do not. Please advise. Correct me if I am mistaken. If I am correct, will you clarify this on your website so that other tax payers will know about TurboTax's fee before they start this "free" program?
1135382	03/18/2005 Today I tried 2 different sites stemming from your IRS.gov web site. Both made me makeup a password, then found some reason to disconnect me. One site even started making up a form before I even brought up a 1040EZ form. Just started automatically filling in information before I even gave it to them. Rediculous, this site was supposedly a free site named Tax-engine.com. This person fraudulently started making up a form under my daughter, Lana's name whom asked me to e-file. They better not get the money because I cancelled. The next site shut me off when and after making up a screen name and password when they wanted me to fill out a W-2 form for her with all the employer info. Even the 1040EZ does not ask you to go through all that info. This site was called Taxslayer.com. I also could not get back on to tell them it messed up under the log-on under my name. If the IRS.GOV site is going to claim that certain sites are free under their LLC alliance when entered through http://www.irs.gov then it should be. Most of the sites I looked at want money even for the Federal. I printed out the rules, excepted the rules, filled out half the personal information, then got cut off. Next thing you know they will be making up phony W-2's under my daughter's name, phony IRS returns through phony checking accounts, then opening up phony credit card accounts and paying with the phony return checks. YOUR SITE DEVELOPERS SHOULD JUST LET YOU DOWNLOAD THE PDF FORMAT 1040EZ FORMS THEN EMAIL THEM DIRECTLEY TO THE IRS.GOV SITE. THEN YOU WOULD NOT HAVE PROBLEMS OF PHONY WEB SITES SHUTTING YOU DOWN AFTER GETTING PERSONAL INFORMATION ON YOUR BIRTHDAY, SS# AND SUCH. THANK YOU AND I HOPE YOU DO SOMETHING ABOUT THIS PROBLEM FOR NEXT YEARS RETURNS.
1135767	How safe is it to file over the internet? Have there been instances of theft? How can one protect their personal information if they file online? I have read of instances of identity theft and that there are no real safegaurds. Most people I know file by mail.
1118812	All I want to do is file my taxes electronically I don't need all the information you offer. I have everything ready to go I just need the form to FILL in the Figures. Everything you offer on this web site is too confusing. I guess I will just send it in by mail like I have done for the past 25 years. Carol L.
1118955	Subject: Unable to resolve issue, please help Turbo Tax is trying to charge me \$19.95 for filing my federal tax return, even though I went through the "Tax Freedom" website via irs.gov I followed the exact instructions and it was clearly indicated that this was free of charge. This is extremely worrisome as they will not let me print a copy of this return (I

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	have already received my refund). I spoke with their customer service however they are unable to resolve my issue: Please contact me as soon as possible. > Kevin
1119181	I have used the addresswww.irs.gov Did a lot of reading. I just want to file my taxes with the IRS and can't seem to get by all the overwhelming information to read. Is there a "go to" link to get to the IRS form for filing ?
1119287	I would like to file my taxes on line using the IRS website for individuals but I cannot find the turbotax link.
1119424	H&R Block is listed on your web site as a company that will file a tax return for free. While I filed free with them last year, I went through the process this year and after an hour of work it wouldn't let me submit without paying them \$29.95. A note or disclaimer next to their company on your list of places to file for free would be nice. Thanks.
1119559	I would like to report a problem with your web site. I went to your free file web site and selected H&R Block from your list of provider links. I went through the entire process of completing my tax return and when I came to the end they were charging me 29.95. I know I should qualify for the free file because my income was only \$9,300. I contacted H&R Block Live Chat and they told me I would have to go to a different web address and completely re-do my return in order to get the free file. I would like to know why this would be the case when I followed the steps set up through your web site for free file. I also wonder how many people have ended up paying that 29.95 because they had already spent 2-3 hours completing their return or thought that maybe they just didn't qualify. I am very upset about this and I think it should be investigated. In my opinion this borders on fraudulent representation on the part of H&R Block. Please respond promptly. Thank you.
1119720	PLS CONTACT ASAP I WANT TO FILE A FREE RETURN
1120083	I am dissappointed that telefile is being eliminated. I just spent over 2 hours doing an e-file return for myself and 10 minutes for my friend using telefile. I am one of the "working poor" with no itemized deductions, etc. I've always used telefile for myself but this year I didn't receive a form. Also, the eztaxreturn link on your site is easy to use, but won't let me print out a copy of my return so now I just don't have one. I am computer savvy and have the latest version of adobe acrobat, etc. Site just doesn't work. Hope everything will be o.k. with my return now. Maybe you should eliminate them from your free links. Also, your website is just nuts. Thought I could find a telefile form in under 2 minutes, download and print it, and get on with filing. Having to search through 500 forms is ridiculous. You need to do a major overhaul.
1120380	I do not believe that filing free should entail my spending \$15 first and mailing in a rebate coupon. I used Turbo Tax this year. I believe tax prep software should be required to generate a file which I can file without using them.
1120416	I really liked being able to efile my taxes to the IRS. I used taxact.com and everything went smoothly. The week after I efiled I received 26 unwanted, gross emails that seemed to be a direct result of filing through taxact.com. Is it possible taxact.com is selling my email address to these spam operators? I certainly am not happy about receiving all these emails that I didn't open but from the wording in the "From" line and the "Subject" line were entirely vulgar and inappropriate. I will also report this to taxact.com. I just wanted to let you know what has happened after using one of the free efile sites that the Internal Revenue Service has recommended at irs.gov
1120492	I originally tried to file my taxes thru expresstaxrefund.com, but they had charges I was not prior aware of. They were going to try to charge over \$140 in total to do the filing. They told me that my tax return would be about \$290. I decided not to continue with them because of the charges. I then tried with taxactonline.com. They were only going to charge about \$8. Upon completing the filing form, they reflected the prior note about a return of \$291 and then told me I owe \$50 something dollars. This is impossible. Why are they picking up information on a prior form filled out with someone else, and not even filed. How can I correct this problem. I do not want the expresstaxrefund.com to charge me and deduct from any tax return the fees they charge. I never clicked on their "agreed/file

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	return" response to complete my return.
1120649	I have a problem. I went ahead and was filing through h&r block website and saw how much they charged. Then I saw on your website we need to go through irs website to get the free filing. My question Do I have to do my taxes all over again through your website/h&r block before I get it free or is there a pass code/discount code I can use through their website?
1120679	I created a user name and password by connecting to your free turbo tax service, but I don't know how to get back to turbo tax and the file I saved.
1120995	Do you still have "turbo tax" available for taxpayers to download and therefore file electronically?
1121006	I was entering taxes through free file and got a message saying my time has expired. How do I get back to my entry? I do have a password.
1121254	Am I to understand that I cannot efile directly with an IRS site as opposed to going through some private contractor authorized by the Federal Government? If so, your efile is worthless to many of us who feel that outsourcing is not a trusted way of protecting our personal information. If I am wrong in my interpretation then please direct me to a bonifide US Government IRS Department site. Thank you
1121573	Did a lot of reading. I just want to file my taxes with the IRS and can't seem to get by all the overwhelming information to read. Is there a "go to" link to get to the IRS form for filing ?
1130959	I have been using the online service to apply for an > EIN# for about 1-2 > hrs, completing the form with my info. I have been > charged 2x to my card > yet my name and address info. will not be accepted. > My name is Sharlene and I need to be credited back > the following money to my card.
1131173	Help Desk, I am trying to file free my 2003 taxes and can't find where to get started with an individual using the 1040 form. Pleas email me back with the steps. My email is nancymcelveen@hotmail.com. Nancy
1131074	ok i,m trying to get to the page where i start doing e-file with the irs.gov but i,m being sent to other page,s other then the irs page that let,s start e-filing i just ned to get there and get started and i can,t seem to get there please help thanks
1121598	Could you please advise me on what to do. I am an employee, today I tried to file my 1040 online with taxnet.com. It appeared to be okay in that it advised me that I was done with my federal taxes and then asked did I want to also file my state? I tried without filing my state tax and it would not let me, I tried with filing the state income tax, it asked me for a credit card to pay the \$19.95 fee to file it, I put in my credit card information and everything appeared to be okay. When I went to actually e-file the Federal and State Income taxes, I got an error message advising me that the address on my w-2. From the dept of treasury had to be a street address. I put in the address at the Customer Service Bldg in Chamblee it still would not accept that address. I could not print out the tax forms and it would not accept them for e-file, but yet my credit card has been billed for the 19.95. There is no phone number to call them to straighten out this problem. There is an e-mail address and I did e-mail them, yet I haven't received a response. Should I file again with another company and call my credit card company to not pay that fee or should I assume that it will go through as filed? Please any input you could provide on what I should do about this will be appreciated.
1121785	TAX RETURN PLS CONTACT ASAP I WANT TO FILE A FREE
1121935	over one month ago, i e-filed in one of your federal websites MY1040EZ.COM and with my mother's permission , i used her credit card to charge for the tax return and yet my return was rejected and i was still charged for that e-filing services. i went to one of your telephone service hotline and the representative told me that I SHOULD NOT HAVE BEEN CHARGED FOR A REJECTIVE RETURN! I would like to get in contact with your supervisor sometime soon to dicuss my problem this is all of my information:
1122439	I have visited your site and researched the information about e-filing but I haven't been

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	able to access a site where I can actually e-file my taxes. I've gotten questions but I want to e-file my taxes on your IRS site. Could you tell me how I can do this? I really would like to file my tax as soon as possible. Thank you, Lois
1122498	hello, i am trying to use free file but i need to know which company has software that is compatible with a mac. thanks, joanne
1122718	somewhat misleading. The OnLinetaxes.com entry, for one is misleading. Your entry states: "Free federal online tax preparation and e-filing for all taxpayers. No restrictions. Everyone qualifies." The first sentence is extremely misleading. It implies that "tax preparation" AND "e-filing" are both free. That is not true. They charge to file. This entry should also indicate that this company keeps their phone on probably permanant busy signal so as to be inaccessible for asking questions. I am shocked that you would direct taxpayers to such a place. Frank
1123340	I would like to know if there is a site that I can file my business taxes for free. They are due by March 15 and I have been looking but all I can find are the forms to print and not an actual site. Can you give me the name of a site that I can file immediately.
1123598	I'm not very comforable using a computer and wondered if there is a way to do a "dry run e-file" by entering information that I've already prepared for on a paper Form 1040. In other words, I want to try out the software for one of the companies you list, but I don't want the information to be sent in to the IRS. It would also provide a check of what I have on the paper 1040 and the required support forms. My return is not complex (I don't itemize but I do have some investments in mutual funds.If possible to do, would the information I enter be on a secure site. Thank you.
1123716	I accessed TurboTax through your website to file a free return. I filled out all the info., and at the end, was told there would be a \$20 charge for the Fed. return and \$25 or \$30 charge for a state return. If I had known this, I never would have started. TurboTAX has my bank account # now, and I don't know if they will charge me or not? What recourse do I have? > > David >
1123864	I accessed Turbo Tax through the IRS Web site that states I can file my return electronically for free. When I finised inputting all my tax data I was informed that the charge for ELECTRONIC filing was \$24.95 OR I could MAIL my completed return free. Since my printer is broken and I do NOT have \$24.95 I will have to find another WEB site and prepare my return all over again!!!! I filed electronically LAST year with no charge. WHAT ARE THE WEB SITES THAT HAVE FREEEEE ELECTRONIC FILING?
1133017	I will need to file state returns in 2 states. Can I still use the free filing system if I am eligible in every other way? Don
1118031	I originally tried to file my taxes thru expresstaxrefund.com, but they had charges I was not prior awar of. They were going to try to charge over \$140 in total to do the filing. They told me that my tax return would be about \$290. I decided not to continue with them because of the charges. I then tried with taxactonline.com. They were only going to charge about \$8. Upon completing the filing form, they reflected the prior note about a return of \$291 and then told me I owe \$50 something dollars. This is impossible. Why are they picking up information on a prior form filled out with someone else, and not even filed. How can I correct this problem. I do not want the expresstaxrefund.com to charge me and deduct from any tax return the fees they charge. I never clicked on their "agreed/file return" response to complete my return
1118152	I went ahead and was filing through h&r block website and saw how much they charged. Then I saw on your website we need to go through irs website to get the free filing. My question Do I have to do my taxes all over again through your website/h&r block before I get it free or is there a pass code/discount code I can use through their website? > > TANYA
1127846	"TurboTax : Free federal online tax preparation and e-filing for all taxpayers. No restrictions. Everyone qualifies. More details " This is not true. Not everyone qualifies. There are indeed restrictions. We continue to receive complaints from customers believing

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	the Iowa Department of Revenue is the IRS. Customers would like to complain about the marketing verbiage being used but do not know whom to contact. Can you provide me with a contact? Renee Information Specialist Iowa Department of Revenue
1125401	You website implies that you can file your tax return for free and I used file for free line which then directed me to the turbo tax - still everything said it was for free, but when I finished and file me tax return I paid the STATE tax fee up front, it stated that the FEDERAL was free. Now I was automatically charge on my bank account 19.95 (Turbo Tax) I am assuming that they are not charging me for the FEDERAL. Is this legal and what can I do about this.
1128746	I am reporting an issue with the Free File... I e-filed my taxes at your site and have been waiting now 4 weeks for my refund. When I log on to check the 'status' of my refund it states, "we're sorry, we cannot provide any information about your refund, Please read the following info. Related to your tax situation...Topic 152- Refunds - How long they should take'. With that I continued to wait and wait, finally I decided I'd better call the IRS and find out what's going on. They have reported to me that they have no record of my efile. I wish I at least would have known this when I first checked the status of my refund. Honestly, I don't know what you could possibly do to make this right. Sincerely, Sharon
1128904	After the "guide me to a service" form is filled out, pressing the "submit" button takes me back to a blank "guide me to a service" form rather than to a list of services.
1129044	it efile im looking for or witch sight do use for free irs filing,please email me the webb sight or page thank you
1129244	that only gets me back to the begining cover page then i get lost on trying to find how get filing page to file s tax papers on single person with a 1040ez i do not like using other tax servers they made mistakes i ended going the irs office to get it cleared imm manly looing how get a file form that well help, me geta 1040 filled out thank you
1129380	Comment from Web Site sent to helpdesk@speedymail.com [#469778] that only gets me back to the begining cover page then i get lost on trying to find how get filing page to file s tax papers on single person with a 1040ez i do not like using other tax servers they made mistakes i ended going the irs office to get it cleared imm manly looing how get a file form that well help, me geta 1040 filled out thank you
1129162	is it efile im looking for or witch sight do use for free irs filing,please email me the webb sight or page thank you
1129221	I e-filed my taxes at your site and have been waiting now 4 weeks for my refund. When I log on to check the 'status' of my refund it states, "we're sorry, we cannot provide any information about your refund, Please read the following info. Related to your tax situation...Topic 152- Refunds - How long they should take'. With that I continued to wait and wait, finally I decided I'd better call the IRS and find out what's going on. They have reported to me that they have no record of my efile. I wish I at least would have known this when I first checked the status of my refund. Honestly, I don't know what you could possibly do to make this right. Sincerely, Sharon
1129516	Help!! When I click on the free file "START NOW" button, I donot get transferred to the available companies. Is there any other way to do this?? Are the lines that tied up so I cannot access this info?? Or is it possibly an AOL problem?? Any other people questioning the same thing? Thank you..
1129617	When I click on the free file "START NOW" button, I donot get transferred to the available companies. Is there any other way to do this?? Are the lines that tied up so I cannot access this info?? Or is it possibly an AOL problem?? Any other people questioning the same thing? Thank you..
1125738	This year, as for the past few years, I did my tax forms with the >>"TurboTax Deluxe" software at a cost of some \$50 for Federal and State, >>and, as last year and the year before, I filed electronically at a cost >>of another \$30. My tax situation is dull and stable - I have a federal >>pension, a mortgage, and investments at Merrill Lynch, but no job and no >>dependents. This year I filed on March 11, and as instructed by the >>software,

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	reopened it on March 14 to "Check the status" of the >>electronic filing. I was told by the system that it had been "rejected", >>but not why. I called TurboTax, they could not or would not explain the >>problem. They said I would have to call you, or visit the IRS website. I >>did visit the site, but found nothing pertinent - except this e-mail >>link. I called the number given and after a long delay spoke to someone >>who said your system knows nothing about me since last year's filing. >>This person then transferred me to another department, but after another >>long wait, the line went dead - an automated voice said I would have to >>redial, and of course I had no way to do that. >> >>So where does that leave me? What do I do now? The IRS and TurboTax >>blame each other, and I am out \$80 and no way to file, as you have >>stopped sending me the annual forms package. >>
1126122	I am having a problem with the charitable contribution portion of the program. There isn't a place to put contributions if the 50% rule doesn't apply to you. I sent them a message (the only way I have found in their site to contact them), and they replied they will get with their Tech Support people and get back with me. That was on the 12th. I have sent them two messages since then trying to find out how long this might take, and they won't answer my messages. I have been working with this issue for over a week now trying to figure out if I was doing something wrong or if it was the program, and I am ready to get my taxes complete. Is there anything anyone can do to get these people to respond? I hate to have to go to another program and put everything back in again. I am getting very frustrated. I thought this was supposed to make it easier to do your taxes, not take forever to get a problem resolved. Help, please. Let me know if you need additional information. Thanks, Deborah James
1129970	I can't get the "Start Now" page to open in order to choose software. I have tried repeatedly at various times of day and it hangs up and will not open

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Reference #	Question
1142717	<p>Is H&R Block allowed to collect, share & use the taxpayer info below when using their tax software or web-based tax services ? H&R BLOCK PRIVACY POLICY FOR SOFTWARE AND WEB-BASED TAX SERVICES This privacy policy explains the types of information we may collect from you, and informs you how we may use or disclose that information. We are providing this privacy policy as required by law. Protecting your privacy is fundamental to our business at H&R Block Digital Tax Solutions. We honor all applicable privacy regulations, and we further strive to operate our business in a manner that justifies your choice of H&R Block products and services. What Does This Privacy Policy Cover? This policy describes the privacy practices of H&R Block Digital Tax Solutions, Inc. ("H&R Block") providing online and software-based tax preparation and related services, and legal self-help software. H&R Block Digital Tax Solutions offers two types of tax preparation services. These include the TaxCut desktop software program that you install on your own computer, and our online, Web-based tax preparation service that is maintained on our computers. This policy covers only information collected through the H&R Block Web-based tax and tax-related services Web sites and software programs published by H&R Block. This policy does not apply to your use of tax preparation services at retail offices of H&R Block, or to our affiliates, which are companies related to H&R Block Digital Tax Solutions, Inc. by common ownership or control, because these companies may be subject to different regulations and/or may have different operating practices. Our affiliates include H&R Block Services, Inc., H&R Block Financial Advisors, Inc. and H&R Block Mortgage Corporation. This privacy policy applies to consumers who are our clients or former clients. This privacy policy applies to personal information, which is nonpublic information about our clients that we obtain while providing a financial product or service. Information We Collect § We may collect personal information when you prepare or electronically file your tax return using our Web-based or software-based tax program and services. This information, referred to in this policy as "tax return information," includes, for example, your name, address and certain other data such as your social security number, income and deductions data, and other information about you and your dependents that you provide to prepare or file your tax return. § We may collect other information in connection with transactions you complete or propose to complete with us, our affiliates or their franchisees. This information may include, for example, your name, address and certain other "nonpublic personal information" such as checking, debit and credit account numbers, balances and payment history, income, assets, and social security number. This information may also include system information, such as your operating system version, internet protocol (IP) address and the number of times you electronically file using the software and the Web site from which your tax return preparation originated. The Internal Revenue Service requires us to collect certain system information in connection with electronic filing. § We may collect information about you from the U.S. Internal Revenue Service and other third parties, such as credit reporting agencies, in connection with tax preparation or other services you complete or propose to complete with us, our affiliates, or non affiliated third parties. This could include, for example, information about the status of your tax return, tax refund, electronic payment of tax preparation or e-filing fees, or tax return related loans. § We, our affiliates, or non-affiliated third party service providers with whom we have business relationships may collect information about you when you inquire about services or request information from us, or when you enter our contests, submit rebate forms, seek technical support, register your software or create an account on our Web site. This information may include, for example, your name, telephone number, mailing address and e-mail address, system information and configuration, account number and demographic information. Our Use of Technologies to Collect Information - Log Files, Cookies and Clear GIFs We use various technologies to help manage our Web sites, to save our customers time, and to understand more about the way our customers interact with us. These technologies include cookies, log files and clear GIFs. Because the operation of these technologies are</p>

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	<p>not visible to users, we believe in being open and upfront about the way we use these technologies and their purposes. Internet Cookies. A "cookie" is term for alphanumeric identifiers that a Web server transfers to your computer via your Web browser. When your Internet browser visits a Web page, a cookie is set with a unique, anonymous number. This number is recorded in a small text file that is transmitted to your computer and stored in the cookie directory of your hard drive. Then, when you visit each Web page on which the cookie technology is enabled, the Web site can recognize your browser as a unique, anonymous user. Some common purposes of cookies are to enhance the usability of our Web site, to ensure that your browser does not see the same ad or message over and over again, and to measure the number of unique visitors that have viewed a particular ad or visited a particular Web page. Cookies are also used for ad reporting functions such as to learn which ads are bringing users to our Web site. This can help us tailor our ads and enhance our websites for your needs. We do not collect personally identifiable information from you through the use of cookies. Clear GIFS. We also employ a software technology called a clear GIF (Graphics Interchange Format), also known as a pixel tag or Web beacon. A clear GIF is a line of code that we place on our Websites or in e-mails which allows us to analyze our advertising and the general usage patterns of visitors to our Web sites. These help us better manage content on our site by informing us what content or promotions are effective. We do not collect personally identifiable information from you through the use of clear GIFS. Log Files. Like most standard Web site servers, H&R Block uses log files. Log files track Internet protocol (IP) addresses, browser type, Internet service provider (ISP), referring/exit pages, platform type, date/time stamp, and number of clicks. We utilize this information to analyze trends, administer the site, prevent fraud, track Web site navigation in the aggregate and gather broad demographic information for aggregate use. The third party services we use to manage these technologies include DoubleClick and WebTrends on Demand. For more information about the practices of these companies or to decline cookies from these third-party ad servers you may visit their Web sites directly at http://www.doubleclick.com/us/about_doubleclick/privacy or http://reports.webtrends.com/privacypolicy.asp and review their privacy policies and opt-out procedures. You may visit http://www.taxcut.com/privacy/optout.html for more information about other companies that we may use to manage these and similar technologies. You may also adjust your Internet browser settings to decline cookies placed directly by H&R Block; however, this will impair your ability to use the H&R Block tax preparation Web site and services. Other Information We May Collect Our tax programs contain features to assist in the preparation of your tax return and to reduce the chance for errors when entering tax data. If you elect to use these features, at your direction we may collect information about you from third parties to populate portions of your account registration or tax return. The auto entry feature allows you to transfer data from certain tax forms, such as a 1099 or W-2 forms, from your employer, financial institution or other third parties directly to H&R Block. The IRS requires that H&R Block retain filed tax returns for a period of at least three years. It is H&R Block's policy that if you start, but do not complete a tax return in our online tax programs, we will generally keep the tax return information you provide until the end of the tax season. How We May Disclose Your Information H&R Block's disclosure of your information is controlled by Section 7216 of the Internal Revenue Code, the Gramm Leach Bliley Act of 1999, certain other laws, and H&R Block policies. Section 7216 of the Internal Revenue Code requires that we have your consent ("opt in") before we disclose your tax return information to affiliates or third parties except the Internal Revenue Service (IRS) and law enforcement officials, and except for certain other lawful purposes. Some information that is identical to some of your tax return information, such as name and address, may not be subject to Section 7216 if we also collect this information for purposes other than filing your tax return. The Fair Credit Reporting Act (FCRA) requires us to give you the option to limit the sharing of certain creditworthiness information with our affiliates. Such information</p>

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	<p>includes that which is used, expected to be used, or collected for the purpose of establishing your eligibility for consumer credit, insurance and related products and services, and is not related solely to your transactions or other communications with us. You may direct that this information not be disclosed to H&R Block affiliates by declining to sign the Section 7216 consent described above. We may disclose your information as described below where you have provided consent under Section 7216, or as otherwise permitted by applicable laws: § We may disclose your information to H&R Block affiliates engaged in banking, investment, insurance or other financial services activities in order to provide you with service enhancements and product opportunities that we believe may interest you. § We may disclose your information to service providers who perform business functions on our behalf or to financial institutions for joint marketing. Services such organizations could perform on our behalf may include, for example, check printing, data processing and analysis, contest supervision, and surface or e-mail production. We require all H&R Block service providers and financial institutions to have written contracts with us that specify appropriate use of your information, require them to take steps to safeguard your data, and prohibit them from making unauthorized or unlawful use of your information. If a state law requires us to give you the right to opt-out prior to any disclosure of your personal information for joint marketing, we will not disclose your information for such purposes without your consent. § We may disclose your information to affiliates or non-affiliated third parties for other purposes permitted or required by law. Such purposes may include, for example, processing or fulfilling a service you request, or selling or transferring our business or assets. We may also make your tax return information accessible to our H&R Block tax preparation affiliates and franchisees so that if you request additional tax preparation services from our affiliates or franchisees, they will be able to access your information. § If you elect to receive a Refund Anticipation Loan (Electronic Refund Advance loan), a revolving loan to pay your tax liability, or if you elect to pay your tax preparation or electronic filing fees from your tax refund, you will be presented with a loan application and agreement and/or refund processing agreement. By accepting these agreements, you are authorizing H&R Block to disclose your tax return information to the lending bank. You should review these agreements and the privacy policies of the lending bank to understand how it may use and disclose your personal information. § The IRS requires that we disclose certain information to it in connection with your electronic filing of a tax return. This information may include your internet protocol (IP) address. § We may disclose your information to affiliates or non-affiliated third parties when we have a good faith belief that such disclosure is required by law. This may occur in connection with a court order, subpoena or other legal process, or a judicial, administrative or investigative proceeding that produces a request for information from H&R Block. Third Party Products and Services and Links to Third Party Sites H&R Block's software and Web sites may contain links to third party Web sites or offers for services from third parties. Examples may include offers for refund anticipation loans or other loans offered through a third party bank, tax payment options and promotions for capital gains or investment software, tools or services. For any such third party products or services, you should carefully read the privacy policies of the third parties providing such products or services. This privacy policy applies solely to services provided by H&R Block, and not to products or services offered by a third party. When you request products or services of a third party on our Web site, you are providing consent to us to provide your personal information to such party to fulfill your request. If you are a member of a third party site that has a relationship with H&R Block, that site may use Internet cookies or similar means to determine if you purchase a product or service at H&R Block in order to credit your account at such site with a bonus or incentive; however, H&R Block does not pass any personally identifiable information to such third party site. How You Will Know If Our Privacy Policy Changes If we make a material change to this privacy policy, including a material change in the way we disclose your personal information or a material change of</p>

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	<p>policy due to a sale or transfer of our business, we will notify you at least 30 days prior to the effective date of such a change. We will notify you by using one of the following methods: (1) we will post a notice on our Web site at www.taxcut.com/privacy describing the change; or (2) we will send you e-mail notifying you of the change. You may also have additional rights under state or federal law in the event of a change in our Privacy Policy. Updates or Changes to Your Personal Information Should your personal account information change or if you feel that the information that we have collected about you is inaccurate, you may update the information by visiting http://www.taxcut.com/privacy/optout.html. H&R Block cannot change information in your filed tax return. You must file an amended tax return to make changes to a filed tax return. How We Protect Your Information H&R Block maintains policies and procedures designed to restrict access to your personal information in several ways. These include programs and specifications for physical security and records retention and disposal; computer and communication security measures reflected in system design, password protection, and data management practices; and other measures to restrict access to the data we hold in physical and electronic forms. How You May Control Use of Your Information We give you choice and control over the use of your personal information. You may limit marketing communications from H&R Block as follows: H&R Block may use information you provide (subject to your consent, where required) to communicate with you about products and services available through H&R Block or third parties. If at any time you wish to limit your receipt of such marketing communications, you may visit http://www.taxcut.com/privacy/optout.html. At your request and subject to the limitations below, we will make reasonable efforts to limit all such marketing communications to you. Even if you opt-out from marketing communications, we may still provide you with information and notices that we deem important or required to complete your transactions with us. These may include legal notices, information about the status of your tax return or tax return filing, and other information or inquiries about your accounts and transactions with H&R Block and its affiliates. The above paragraphs only apply to personal information H&R Block obtains through the H&R Block Web-based tax services or software programs, so you could still receive offers through H&R Block, its affiliates or franchisees where they obtain your contact information through other sources. In order to opt-out from communications from our affiliates or franchisees, you may contact each such affiliate or franchisee separately in accordance with their policies. Contact for Questions or Concerns If you have questions or concerns regarding this privacy policy, visit http://www.taxcut.com/privacy/optout.html. Policy effective date: September 1, 2004 © 2004 H&R Block Digital Tax Solutions, Inc. All rights reserved.</p>
1139167	<p>I know you said I need to contact H & R Block about any mistakes they made while filing my free e-file, but they want to charge to answer any questions. I don't have the money. That's why I filed free file (federal 1040). I know you can't help me but maybe if you're aware that H & R Block has no free way to ask questions as you progress through the form. I gave them all the right figures & info & went over everything 4 times. But at the end they added their own figures which lessened my refund over \$300. I couldn't figure out how they came up w/that figure until I printed it. Anyway maybe you ought to delete H & R Block from the free file list or get a promise they'll make it possible for poor people to ask questions on each pg. Because of them I have to file an amendment causing a delay in the rest of my refund. All in all I think the free file program is a good idea. I just picked the wrong company.</p>
1139182	<p>I followed your link to Turbo Tax to get a free federal tax filing. I spent a great deal of time entering all the information the software asked for. Then at the end I found out that I had to pay for the state filing fees in order for me to get the federal return for free. This is a scam. I'm never using your website again!</p>
1147086	<p>I want you to know that I think your instructions to link to the start up screen STINK. Are you too lazy to put a free link on your page? Don't you want taxpayers to file for free?</p>

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1147089	your web site says that the efile is free if you stay within irs.gov website. but every company you click on says you will be leaving the irs website and there will be a charge. I don't understand how you stay in the irs website to get the free file. please tell me what i am doing wrong. I want to file my return on the computer, but i don't think i should have to pay for it. SC has a short form that you fill out, why can't the irs have a similar form that would make it easy for people filing 1040EZ or 1040A forms.
1139460	I understood that we would be able to download TurboTax software free from the IRS website this year. I have not been able to find that link. Could you please direct me to the information?
1147165	To Whom It May Concern: I wanted to use e-file for my 2004 individual return, but could not do so. I may have missed something. Please advise. Thomas
1147230	I fill in all of the info on the "Guide me to a service" page of the free file section, then I hit submit, and instead of showing me services it goes back to the "Guide me to a service" page again. E-filing should be much easier. It is possible, why hasn't it been done?
1139493	I used the free Turbo Tax on the list on your sight. You may want to check out their reliability. When I was done doing my daughters taxes, it said her refund was 536.00, and I e-filed it. Then I printed a copy for our records, and on the REFUND line, it said 18.00. If this a recurring problem with the sight, isn't that going to make alot more work for you guys in the end? Thank You.....
1139603	On the page that displays the websites for the e-tax prep companies, each has a "more details" link. There, it would be helpful to have the cost & more details about why we should buy their state taxform. Once we commit to a company through the federal link, we're committed to buy their state form.
1147333	Do you have a free download that is the equivalent of Turbo Tax for computing income tax?
1147478	I would love to e-file my return but I refuse to pay for the service. I >tried using Turob-Tax this year because it was free but after entering all >the data discovered I would have to pay because I required their >"Premiere" edition. Your list of efile preparers is too long and it needs >to be prioritized according to those that really do offer a FREE service. >Please change your listings to show those that are really FREE (very few) >versus those that want to get a foothold on you and grab some of your >money. The only money I'm EVER going to spend to file my income tax is >one or two stamps. Until the IRS realizes that customers shouldn't have >to pay to give them money you won't be getting an efile from me.
1147810	Hi, My name is Nagaraj. I am Indian Citizen and live in India. I was in USA (Alameda, California) from Feb 2004 to June 2004 on H1-B. Since I am a 'non Resident' (From USA point of view), I believe I need to fill 1040NR, 1116NR and 540NR forms to file TAX submission and to claim the refund amount (which I am entitled to). My questions are: 1. Which of the above applications I am eligible to fill online (for free from irs.gov) from your site ? 2. I don't have a bank account opened in USA.(I had closed it while returning to India) If I fill online, can I ask the amount to be transferred to one of my friends account in USA ? Or Can I give the current address of my residence (In India) where I can get the refund delivered ? 3. I believe One needs to sign the Form if submitted online. How do I do it online ? Do I also need to mail across the hard copies of the above filled forms to the concerned address. 4. Typically how long it takes for the process (To get the refund) if I fill online, and how long it takes if do through paper work only ? Waiting your reply Thanks & regards Nagaraj
1148468	I have been thru several tax companies and cannot find one whwere you don't have to pay, also I am not getting a refund I have to pay
1148640	Hello, I heard from someone that people can download the turbo tax software for free on the IRS.GOV website. Is this true and if so, where can I get? Can you provide a link? Thanks, KDY
1148523	On the "free file page", it asks the age of my spouse. He is deceased but the page won't

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	accept that answer. Is the free file limited to married couples? Thank you
1149094	I think you should drop the link from your website that offers "free filing" by turbotax for the web. After entering all of the required information, I was told that there would be a fee for printing or sending the return. In other words, it was a fraud.
1149737	I sent a previous request to find a free place to file my taxes, I was told where to find that, but it is not true and I am getting a little upset, also all sites are for refunds, I have to pay. I hope you can help me. Sincerely Joanne
1149581	Dear IRS Website Support Team, I accessed the turbotax website via the Free File website from www.irs.gov. I was enticed by the statement in the www.irs.gov website that use of the program was "free." I became upset when, after spending a lot of time completing my return on the turbotax website, I was notified that, while "use" of the program was "free," there would be a charge involved when I printed my return or transmitted it. I feel this was very misleading and hope you sever the "free file" link between your website and theirs. My Email address is ADMSR1@AOL.COM. My phone is (858) 566-4047. Thanks for your reply.
1150632	I am going to file taxes for the first time myself (I am now a single Mom with 2 children) and I have two W-2s, that is all. What web site would you suggest? I heard this can be done free online.
1150918	Why don't you have a program here that prepares taxes for taxpayers. Why should taxpayers have to pay an on line tax preparation program when IRS is on line and can do it for nothing. If IRS can prepare taxes on site, it should be able to do it online. What's the diff?
1150935	I tried TurboTax and TaxSlayer to file my return. With both Providers, I could not get past error messages, etc. I finally selected EZTax return, and it went through very well with no errors. My question is, with identify thefts, and so forth, I could not delete my return info to these other two providers - which bothers me. My request to you is to have IRS 3rd Party Providers to have complete delete privileges to keep my tax and personal info out of the wrong kind of people. Thank You. Also, I must note, the efile way is wonderful - I just never had such difficulties in the past with your turboTax, as it was a simple, not complex return. But they kept asking me about an "installment Agreement" - WHICH WAS NOT APPLICABLE. Probabaly something I did wrong. Thank You
1151064	I thank you for this web site. It has been very useful to find all information in one spot. However I did go into the free returns section and was able to choose a company to do my federal taxes "free." Only to find out after spending 2 hours putting all my information into H&R Blocks system they want to charge me 39.95 at the end! I felt this was a big scam because I did choose the free option on there link and the whole time a fee had not been addressed .
1151073	Yes, I do need help and I did have text. I am filing for the first time online and I need to know which web site to use. I have two W2s, but I am under \$50,000 with income. I have two children and I am no longer married. I need to save every penny, so I would like to file online and need help.
1150756	Dear Sirs/Madame, I tried TurboTax and TaxSlayer to file my return. With both Providers, I could not get past error messages, etc. I finally selected EZTax return, and it went through very well with no errors. My question is, with identify thefts, and so forth, I could not delete my return info to these other two providers - which bothers me. My request to you is to have IRS 3rd Party Providers to have complete delete privileges to keep my tax and personal info out of the wrong kind of people. Thank You. Also, I must note, the efile way is wonderful - I just never had such difficulties in the past with your turboTax, as it was a simple, not complex return. But they kept asking me about an "installment Agreement" - WHICH WAS NOT APPLICABLE. Probabaly something I did wrong. Thank You
1152553	I have tried using 3 seperate "free" file sites. Turbo Tax forces you into the State return as does Free Tax. While the Federal return is free, Turbo Tax charges 24.95 for state and Free Tax charges 9.95! This is not a free service. I started a return at 1040 Now and now

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	their system will not let me back in, nor will it take a message to remind me of my log in information.
1151652	I used this program last year. This year I entered directly from the H&R Block site by clicking the link in the email you sent. Now the program wants \$29.95 to file federal return. I tried going through the IRS site and then to H&R Block. I noted the message that said fee charged unless enter through IRS site. Am I stuck paying the \$29.95 after I spent all this time entering the data?
1153517	The guide me to a free tax company function is not working. It just leaves me where I am. Time is running out!
1153553	My name is Kirse and I reside in Washington, DC. I did not file for 2003, and I would like to file for 2003 and 2004 this year. I was able to find the 1040EZ form for 2004; is there a separate 1040EZ for 2003? If not, what form do I need in order to file for 2003? Can I file for both years on a single form? Also, I moved from Wyoming (which has no state taxes) to the District of Columbia in July 2003. Do I file a separate form for DC taxes? I would like to file online. Can I fill out the Adobe EZ form and submit it on my own, or do I have to do it through a company? (I noted that the companies that file your taxes online for "free" charge an amount for the use of their software or forms.) Thank you for your help. Sincerely, Kirse
1153642	I want to tell you what a rip-off your free filing page is. Just about every company I qualify for offers ONLY free federal filing and want to charge for state filing. Unfortunately I don't have any money floating around that I have that luxury of paying for state too. If they didn't change the stupid files so they're harder to understand I wouldn't need any help at all with my 1040EZ file. I shouldn't have to pay anyone for anything that simple, if only people had left it alone!
1153605	After answering some questions I find that I am entitled to free e-filing. However, in looking at the list of firms who offer free e-filing I find that you must do the tax return on the web. I did mine on my computer with TurboTax. In addition it seems that the firms you list will only provide free e-filing for your federal return. What say you?
1153874	i tried to file my return on line twice with > company's listed on your web > site that are advertising for do it for free > provided you fell in the > income bracket. My income does fall in the income > bracket but after > entering all of my personal data, they refuse to > file the return without > charging my \$24.95. Now they have all of my info > and my return has yet to be filed. These companies > totally misrepresented > themselves.
1154162	last year i wanted free tax filing -but didn't get it -my income is under \$24,000 (which will do it) -i used "turbo tax" -they didn't do it -so who DOES do a free filing for low incomes??
1154305	fileing on-line was a time consuming pain in the a\$\$ not only did I have to fill outthe form manually but then I had to enter it all over again into this machine the tax prep H&R B was full of advertisements and tricks to make themselves money and the program was hard to follow I will not use it again and although it was "free" it actually not because of the expence of my computer cost of the ISP etc. I hope it makes life easier for you because it didn't for me
1154428	Dear Sir: I have to tell you that this site for free electronic taxes is a farse. I just spent 2 hours using turbo tax through your free file system. Mind you I was already approved for free electronic filing through the IRS. gov FREE ALLIANCE site. For the first twenty minutes it said free on the backround of the screen. But apparently I took to long in completing the short 1040 ez form and was told to start again. SO I DID. only TO COMPLETE THE WHOLE AGAIN AND BE TOLD THAT NOW I HAD TO HAVE A PROMOTIONAL CODE OR I WOULD HAVE TO PAY FOR THE FED AND STATE FILINGS. I'm so aggravated thinking that this would be easier and faster than just mailing the return, well wrong again , like they say if it sounds to good it usually isn't true . well you taught me . Back to the trusty mailmen. And no thanks to you and you FREE SIGHT
1155131	When using free file is it correct that I must choose one of the private companies to file through? Since they charge, why is it called free file? I want to efile from my home and am

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	confused by the website. So sorry! Thanks, Miles
1156202	Starting at the home page of www.irs.gov and following the link 'Free File' and getting to the page entitled 'Free File Alliance Companies' and in that page the Turbo-Tax Company statement 'No restriction everyone qualifies' is false as there seems to be unstated restrictions which cause redirection to buy Turbo Tax Premier Software. Please resolve this.
1146693	I heard on the news a few weeks ago that there are downloads on this website to help you prepare your return. I thought it was TurboTax, but I cannot locate it. Can you tell me if there is a way to download it and where it is on the website?
1144817	Could you please help me with info about how to file my taxes forms directly from my computer without using any Free File Alliance Agency. Thank you.
1144930	I Went through the H& R Block free e-file via irs.com. It was pretty easy up until the last part of my Federal filing. I got 75% through it and it pretty much just stopped. It said I only had a few more steps left but I can't go forward or backward. The only place it will take me is to the online help desk which you can only access if you pay \$20 dollars. I was trying my hardest to avoid any fees considering I do not get much back but I was just wondering if this has been a problem for others or if this is how they make their money by coaxing people to fill out 75% and then forcing them to pay to move forward. I Will print out the 1040EZ if I do not hear a response but it is very unfortunate that H&R block now has my e-mail
1145361	Could you please inform me of the contact to complain about a supposedly free e-file company linked from your website that attempted to charge my daughter a total of \$22.95 for this "free" tax filing? Online-taxes.com was linked to from your site, and states on it's home page Free E-File for Federal Returns with OnLine Taxes! and after she filled out all the information was told she would have to pay \$7.95 plus \$1 plus \$14 in order for her taxes to be filed! If you could give me a contact, or forward this to the appropriate person I would appreciate it. Thank you
1140706	Hi, first of all I want to say that the possibility of having several companies offering Tax preparation is great. There are so many that for some of the companies you cannot tell which one is better for your needs and/or easier to use. I chose to use TaxNet, and everything was going well until I had a problem with my federal Tax that I submitted through TaxNet. It was rejected. Well the exact problem is that I tried to fix the rejection problem through the TaxNet software and after more than ten different trials I could not get it fixed. Well I decided to use the service from another company which worked just fine. Now the problem that I stil have with TaxNet is that when I prepared and submitted my Federal tax for the first time this year with TaxNet, I also prepared the state tax. Now TaxNet charged me for the state tax preparation, which I am ok with that, but since my federal was rejected, my state was never submitted. Well I am trying to have TaxNet refund the amount I was charged for the state tax preparation since it was never submitted but I never get an answer from the TaxNet about this issue. Is this the appropriate place to complain about an issue like this one? I will kindly as for your help in solving me this issue, or appointing the right forum for this.
1140722	I have been trying to file my federal taxes free. But I am told that if I leave the irs site that I will have to pay. How do you get them done if every one of the companies say you are leaving the irs site and I have tried them all. I am upset, I feel like I have been on a merry go round. I have looked. Will you help me ??? Thank you
1140873	H&R BLock free file is a fraud. I have a simple tax return using H&R Block through the IRS web site. They would not let me e-file free like advertised. I followed directions exactly.
1141108	I'm doing my disabled son's fed & state taxes and want to use the free electronic one. I looked thru the entire list of all that seemed eligible and could still not decide, so I went to your GUIDE to a service--but gee I got a listing of SIXTEEN(16) to chose from! You should add more questions to your guide service! I think the BIG question in everyones mind is: IS BOTH THE FED & STATE EFILING FREE??? HARRY hfb4@access4less.net

2005 Free File Customer Service Feedback Extracts
Week of March 21 through March 27

Reference #	Question
	ps I give you good grades though on having a FAST site!!!!
1141284	Hello, I just used your links to go to H&R Block to fill out a free e-file. The link takes people to the commercial area of their site and even if you click on the free-e-file it still logs you in to their standard efile which costs \$29.95. And there is no way for them to fix it after you have filled it out, but you don't know of the error until you have spent about 1 hour completing their interview. They claimed they are working on solving the problem. I just wanted to make the IRS aware of what I consider fraudulent and misleading behavior- If I click on a link (on their site) that claims I will get a free-efile, I expect to be directed to that place and not have to seek direct assistance to find the correct url. Thank you, Adam Howard Tennessee
1141544	We have amount on box # 14 "MED-DEN \$832.00" & "PA-UI \$33.48", but turbo tax is asking for "TYPE" and there is nothing in the box # 14 about type code. Please let us know. Thanks for the help. Sunil
1141698	Hello! I'm using a store-bought version of TaxCut. Is there any way I can E-file my federal tax return from home, without going through (and being charged \$15.95 by) H&R Block? Thanks, Nancy --
1141934	I have used the Turbo Tax to prepare our Federal and State Taxes and qualify for the free file but it isn't recognizing that. My husband was on active duty with the military for Operation Iraqi Freedom. How do I get Turbo Tax to recognize that we qualify for the free filing?
1142072	I would like to submit a complaint about H&R Block. You have them listed as an agency that provides free filing. I went to their free file site and because I am a returning user they had me log in as such. I did my return and in the end they said I owed them \$49.00, not the promised free file. I have emailed them repeatedly and never get a personal response but rather they send me an autoreply message and just tell me about all the benefits I will receive. I believe listing them is a misrepresentation of what they offer. Very Disappointed
1142372	Hello I understood that we would be able to download TurboTax software free from the IRS website this year. I have not been able to find that link. Could you please direct me to the information? Thank you -Hazel Singer Griffiths jbgahls@earthlink.net
1140859	If I choose to use Turbo Tax through the irs.gov website does it allow me to save my work and return to finish it, or do I have to complete my return in one sitting? Thanks. Greg
1147048	I use TurboTax software to prepare my tax returns. I have been unable to use your free e-file. Is there no way for you to allow TurboTax users to utilize your free e-file, which you say you wish we would do? When we attempt to do this, we are told we must pay \$15.95. Can you not make some arrangement with TurboTax for nex year's software to allow us to use free e-file, while using their standard software?
1142731	Did not get staisfaction from the Free File page. Spent over 3 minutes trying to determine if I qualify to use Free File. Could not get to that point because of all of the fluffy stuff. So went on, found this Contact Us feature in less than 30 seconds.
1143015	Just want to make a comment re: the Free File initiative. I'm a revenue agent and have been with the service for over 30 years, and have worked in Walk-in as a TRR for 3 years since the reorganization, so I know how to efile. However, when my daughter went to prepare her return through the irs.gov website, she selected TaxAct to do her return (we used it successfully last year for her return,) we got all the way to the end, and they wanted to charge her \$7.95 to efile the return. Her only other options were to file by paper or to exit or to start over from scratch with another preparer. She didn't want to take the time to start over, so she is filing a paper return this year. Her income is only \$11,000, so she should have been eligible for free file. Their portal says they have no income limit for free efilng. Just wanted to let you know they are charging --- I was under the impression that they were there to encourage efilng, not to force people to file by paper or pay their fee. By the way, immediately after this, I filed our return through Turbo Tax and was not charged a fee, even though our income was much higher than hers. I just wanted to let someone know. Thanks!

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Week of March 21 through March 27

Reference #	Question
1140377	I am trying to e-file my tax return for the first time, but I am unable to find a way to do it without leaving the IRS site. Does this indicate that I am not eligible for FREE e-file?
1140456	I guess that sums it up in a politician answer, why are programs given out to/for the tax professionals ?? Dear jimthiemann@juno.com, The Restructuring and Reform Act of 1998 (RRA-98), contains an IRS non-competitive clause which basically states that the IRS will not compete with private industry software developers. Software developers maintained that there would be a negative impact on their businesses if the IRS were to offer direct filing services. However, effective processing year 2004, the Internal Revenue Service (IRS) began its implementation of an entirely paperless e-file process via the Modernized e-file (MeF) Program. The MeF program permits tax returns to be filed via Internet without the assistance of a third-party. Form 1120 was used as the return prototype for initial filings. Transmissions for MeF must be in the XML (Extensible Markup Language) format. The IRS is currently developing a phase-in schedule for introducing other return types to this program. A definitive implementation date for Form 941 is not available at this time.
1140591	To whom it my concern I selected turbotax e-file through the web my understanding if your gross income is under 28,000.00 e-file should be free. but turbotax is charge a process fee of 19.95 plus is this correct.
1144476	I cannot find a free e file site that will take a 1040A return. Is there one? If so, what do you recommend. Thankyou
1146870	Is the Free File service available for federal but not state tax returns? While using TurboTax it seems I only qualify for Federal. My "New York service fee" is \$24.95. Thanks in advance for any information and help

2005 Free File Customer Service Feedback Extracts
Week of March 28 through April 3

Reference #	Question
1160354	Since the IRS benefits immensely from people filing their tax returns electronically; resulting in huge cost savings/benefits by avoiding errors in manual processing and returns handling, --- the e-filing should be FREE! Not from tax preparing businesses, but from the IRS. The day you do that is the day I will file electronically!!
1159663	I am having no success in the free e-file. After accessing the IRS site, then clicking on H&R Block, a message comes up that I am leaving the IRS site. I have clicked on Block's free e-file start now, entered all our information, get to the end and unable to actually file because a charge of \$29.95 appears.
1164219	This is a complaint with respect to the free-file service of TurboTax. I have spent several hours entering data to complete my federal (and NY State later) return. The program works well, despite some lack of automated features and the frequent suggestions to upgrade for a price to obtain more complete features. However, often when I want to continue with my return after logging on, there is a message "This page cannot be displayed." indicating browser trouble, etc. I think this is probably a TurboTax willful intention to make the program unpredictably troublesome to access, probably something that does not happen with paid TurboTax for the Web. The IRS should investigate this discrimination against lower-income tax filers.
1164732	I can TeleFile directly with the IRS, but to file on computer I must leave secure site and go through private company. I have found that E-File is a lot more complicated than its worth. All in all E-File seems way to risky and not consumer friendly. I think it would be nice to file directly with the IRS.
1165102	Bush I am a first time visitor to your site and had hoped to discover e-filing through the free offers your site promotes. There is not one affiliated service that I can find here that provides/supports the use of the short-term capitol loss/gain form, thus for many of us your site is useless. I feel offended that you sucker people to a service that you don't provide free as advertised. Looks awfully a lot like the old "BAIT AND SWITCH" and leads persons to use fee based services as a last resort.
1163221	you say "e-file" is free. I've checked 10 different sites that you've listed, and none of them are "free," unless you want to consider their service charge as a "free offer." Guess I'll file the old way by mail. Why can't you do a "site" that is "free" ???????
1165284	I just wanted to let you know. I followed your link to the H & R Block website. Followed all their instructions for the free return. At the point i went to efile. It said I had to pay \$29.95 and had a little blurb, which I feel was designed to fool you into believing you weren't going to have to pay, even though the screen said it was going to charge you. Upon contacting their help desk, they told me even though I followed all their screen directions for free efile, i did it wrong and would either have to pay for the return or completely re-enter everything from another web page. I think you should investigate them for fraudulent activities as I feel there is no question they deliberately engineered their system to get people to that point and then jack them for \$29.95 so they wouldn't have to go through reentering all that data.
1159774	You list CompleteTax.com as a free filing site, yet it mentions this nowhere on their site. Also, I attempted to file my taxes on that site, and my AGI is well below the listed max of \$28500 for free filing, yet they say I must pay the fee. I think that this site should no longer be listed, as it seems to no longer be a free service to anyone.
1165298	Bush Within this website you have a listing of Free File Alliance Companies. One in particular is CompleteTax.com which offers free prep. and filing if AGI is under 28,500 or less. This year that does not seem to be true. The site appears to be set-up to automatically charge a fee regardless of ones AGI and of course this is entering the site via the IRS site first. Perhaps someone should look into that. We're saying here's a company that's free based on AGI requirements, when it really is not. It's not a good look for us.
1162944	I went to WWW.IRS.GOV to file my taxes electronically. I went to the Free online filing page which took to the Free File Alliance Companies which I chose H & R BLOCK. H & R

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Reference #	Question
	BLOCK states that it is a free federal online tax preparation and e-filing for all taxpayers. No restrictions. Everyone qualifies. When I finished filing out the pages at the end H & R BLOCK states that they want \$29.95 for Federal and \$19.95 for State. Why the charge for Federal? Is it not suppose to be for free? Maybe H & R BLOCK needs to be removed from your website if they are going to charge for Federal. They make it sounds like it free, until your done and at the end they want money! What can be done about this? It seems misleading to the average consumer/taxpayer.
1165402	What determines eligibility for free filing with Turbo Tax? We were married last year and my husband had previously filed through Turbo Tax and paid so we had them go ahead and pull information from those files. Is that preventing us from filing for free??? Thanks! Leslie
1166191	Hello... Is it true that we can file our taxes "free" using TurboTax download?? Please confirm. Thanks. -Laurie
1165970	Within this website you have a listing of Free File Alliance Companies. One in particular is CompleteTax.com which offers free prep. and filing if AGI is under 28,500 or less. This year that does not seem to be true. The site appears to be set-up to automatically charge a fee regardless of ones AGI and of course this is entering the site via the IRS site first. Perhaps someone should look into that. We're saying here's a company that's free based on AGI requirements, when it really is not. It's not a good look for us.
1165962	I am a first time visitor to your site and had hoped to discover e-filing through the free offers your site promotes. There is not one affiliated service that I can find here that provides/supports the use of the short-term capitol loss/gain form, thus for many of us your site is useless. I feel offended that you sucker people to a service that you don't provide free as advertised. Looks awfully a lot like the old "BAIT AND SWITCH" and leads persons to use fee based services as a last resort.
1166618	I wish to report a situation with the H&R Block free file program. I feel they are using deceptive advertising to trap filers into buying their tax program. When I contacted them about this they simply acknowledged the situation but did not offer an apology or promise to correct the misinformation. I told them that I would file a complaint with the IRS about this problem. This is the situation: After linking from the IRS.gov free file page to the H&R site, I was taken to the free file homepage. It claimed that "Everyone qualifies, absolutely no restrictions" while an asterick refers you to the bottom of the page that says: * You automatically qualify for free filing through the IRS Free File Alliance - NO AGI limitations. To receive this FREE filing offer, You must click 'Start Now' on this page. Includes one federal return. Additional fee applies for state returns. After clicking on the "start now" button, I was taken to a page that prompted you to enter a username and password, with an alternate sign-in option for returning customers. The instructions state: I used this program last year. Do I sign in as a returning client? If you completed and filed your return with any of our online programs last year, you can sign in as a returning client and View your past year's tax return(s). Import some of last year's information into this year's return. Click the Returning Clients Sign In link in the top right-hand side of this page. If you used the program last year but didn't complete and file your taxes with it, you'll need to start a new account. Please sign in after completing all the fields on the New Client page, including creating a new username and password. Notice that there is nothing stated about this option incurring an automatic purchase cost. There is no warning that this removes you from the free file program that you just entered from the IRS page. After completing my taxes, I was given a charge page showing a \$29.95 fee for program purchase. When I contacted customer support for an explanation, I was told that all returning customers are disqualified from the free file option, and that in order to file for free I would need to start all over again, sign in as a brand new customer, and re-enter my entire tax return. When I asked why they didn't reveal this to customers in the beginning, I was told to have a nice day. I think H&R Block is in violation of their agreement with the IRS Free File Alliance and would like to see their deceptive marketing practices amended.

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Week of March 28 through April 3

Reference #	Question
	to include full disclosure to customers, or have them removed from the Alliance.
1166534	My son tried to file online with the free turbo tax link offered by your website. His return came back as a rejected, and we are not sure why. His name is William . There were no deductions on his W2 and he only grossed about 850.00. Does he need to try to file again?
1166992	What if I want to report a technical issue about Free File to the IRS? If you have a technical question about the IRS.gov Free File site, need assistance getting around the site or wish report a Free File issue, please e-mail us at helpdesk@speedymail.com. We encourage you to continue working with the Free File Alliance companies to resolve any ongoing issues. If you are not able to resolve your issue with the Free File Alliance company, you may wish to try another Free File Alliance company's service Dear IRS, I wish to report a situation with the H&R Block free file program. I feel they are using deceptive advertising to trap filers into buying their tax program. When I contacted them about this they simply acknowledged the situation but did not offer an apology or promise to correct the misinformation. I told them that I would file a complaint with the IRS about this problem. This is the situation: After linking from the IRS.gov free file page to the H&R site, I was taken to the free file homepage. It claimed that "Everyone qualifies, absolutely no restrictions" while an asterick refers you to the bottom of the page that says: * You automatically qualify for free filing through the IRS Free File Alliance - NO AGI limitations. To receive this FREE filing offer, You must click 'Start Now' on this page. Includes one federal return. Additional fee applies for state returns. After clicking on the "start now" button, I was taken to a page that prompted you to enter a username and password, with an alternate sign-in option for returning customers. The instructions state: I used this program last year. Do I sign in as a returning client? If you completed and filed your return with any of our online programs last year, you can sign in as a returning client and: View your past year's tax return(s). Import some of last year's information into this year's return. Click the Returning Clients Sign In link in the top right-hand side of this page. If you used the program last year but didn't complete and file your taxes with it, you'll need to start a new account. Please sign in after completing all the fields on the New Client page, including creating a new username and password. Notice that there is nothing stated about this option incurring an automatic purchase cost. There is no warning that this removes you from the free file program that you just entered from the IRS page. After completing my taxes, I was given a charge page showing a \$29.95 fee for program purchase. When I contacted customer support for an explanation, I was told that all returning customers are disqualified from the free file option, and that in order to file for free I would need to start all over again, sign in as a brand new customer, and re-enter my entire tax return. When I asked why they didn't reveal this to customers in the beginning, I was told to have a nice day. I think H&R Block is in violation of their agreement with the IRS Free File Alliance and would like to see their deceptive marketing practices amended to include full disclosure to customers, or have them removed from the Alliance. Thank you, Dorothy Gill
1167132	Help, I'm still in the Dark Ages here. Bought Turbo Tax (which I've used for last several years) and then discovered you now need Windows 98 to operate TT. Tried IRS free file, H&R Block and had same problem. Can you advise which free file programs are compatible with Windows 95? Thanks, Chuck Tierney
1167223	Your "free" Federal Turbo Tax cost me \$19.95!!! Why are you letting these jokers rip us off like that? My return was within the 3 parameters - under \$35,000 Please get my money back - if I could have afforded to pay - I would have bought a copy. You cannot put in a Discount Code unless you have a "package" with a "coupon" inside...I am extremely angry with them - and the IRS for allowing such duplicitous activities. My SSN is 324408510, and I paid yesterday on Order Number TTWE446317992
1167154	I have a complaint. To encourage electronic filing you indicate that electronic filing is free and list several vendors. However, I used TurboTax, which states,"Free federal online tax

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Reference #	Question
	preparation and e-filing for all taxpayers. No restrictions. Everyone qualifies." But after going through their process, they charged me \$19.95 to file my return electronically. What's up? Sounds like false advertising.
1168164	TURBOTAX DOUBLE CHARGES FOR 'FREE FILE' - at the end of entering all my info on the TurboTax Free File site I was informed of nearly \$50 (two fees of \$24.95 each) in charges to process my tax return. These charges should be stated clearly at the beginning of the process. As a result, I intend to file a traditional paper return this year. Karl
1168168	Used the link on your site to Turbo Tax to prepare > my return this year > since it was allegedly free. When I went to file > the return > electronically Intuit wanted to charge me 14.95 or > something close to > EFile. Instead, I printed the return out and mailed > it for .60. Don't > think thats what you want to happen as now somebody > needs to keypunch the > data into the system.
1168215	"Freefile" website with horrible security http://www.no1-income-tax-return-submitting-specialist.com/ -- A website that allows people in my income bracket free tax returns is claiming they are top notch in security. They emailed me my password in plain-text not once, but twice. When I do my taxes, I use my highest-grade security password (letters, numbers, special characters) only to watch it emailed to me across the internet in plaintext for anybody to see. I'm incredibly upset about this, but even more, I cannot contact them without giving them my CC number for a \$1.99 support fee. This is a huge security issue, as anybody between them and the rest of the world can sift through hundreds of emails and yank passwords out with ease. I hope you guys can do something about this, either by contacting them and asking for some security compliance or maybe discourage the use of their website. Thanks for your time, I'm very appreciative of how quickly I can do my taxes because of the job you do. Brandon
1167587	Tax programs compatible with Windows 95 Help, I'm still in the Dark Ages here. Bought Turbo Tax (which I've used for last several years) and then discovered you now need Windows 98 to operate TT. Tried IRS free file, H&R Block and had same problem. Can you advise which free file programs are compatible with Windows 95? Thanks, Chuck
1168368	I find turotax Free to be very miss leading the no restrictions doesn't tell you that you must file and pay for State for the Federal to be free. now I can't tell about the others , since you must go all the way throught TuroTax to find this out . Why doesn't it tell you up front ? I would have hoped a businesslinked to the IRS website would need to be very open . thank you
1169188	I have inquired at least a half dozen of the efile websites and have not found one that provides free online efile service. Every single one charges a fee for the service. Why do you advertise them as free, when indeed, they are not? Why do you not provide a venue to file (not prepare) our taxes online? California does, by the way. I'd appreciate a response. Thanks.
1169427	Thank you for offering the free e-filing service, but I would remove the link to eztaxreturn.com as one of your options for the free e-file. They do not offer access to the adoption credit on their site. After spending nearly one hour entering all of my information I discovered this problem and have been unable to access any assistance from them.
1169554	I recently completed my free federal tax files through this site. I saved >my file and set up a password but now I do not know where to go to log in >and print out the document to send in. >Can you tell me where to go to login into my finished file so I can print >it? >Victoria
1169599	Hi The link for free filing is not working. When I click the button 'Leave lrs site' the following message is coming 'page cannot be displayed'
1169453	I recently completed my free federal tax files through this site. I saved >my file and set up a password but now I do not know where to go to log in >and print out the document to send in. >Can you tell me where to go to login into my finished file so I can print >it? >Victoria
1159857	Your web page says re free on-line filing: "...you can prepare and file your federal tax

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Reference #	Question
	return using Free File. But you may have to pay to file your state return. You are under no obligation to buy any products or services." However, on connecting to a vender on your list (FreeTaxUSA)and completing the form for "free federal filing" there was no way to submit it to the IRS unless I also completed the "fee for use" state filing. What's up? Does your Web page connect to "free" filing or what? Thanks
1170080	I e-filed my daughter's taxes last sunday and was waiting for the declaration control number. However, my computer network provider at the house terminated their connection to my computer. I'm changing providers after the first of the month. Therefore, I never received the DCN to put on the form 8453-OL to send in. What am I suppose to do now? I can't file again, can I? Please help.
1170083	I had a technical problem with my printer and was unable to print my returns. How can I access my information and reprint them.
1170279	Hello I submitted my taxes on March 25th. I called and spoke to one of your representatives about checking the status of my taxes. (After the waiting peroid). He told me to log back in and Select EFILE status. I have logged in several times and DO NOT Find E-FILE STATUS. Can you please direct me to this portion on your web page. Also When I called he mentioned that once I submitted my federal taxes. You were going to do my state taxes. You might want to put this on your web page. It doesn't clearly state this - I am sure more people would probably do what I was going to do. Log in again and try and perform tax returns for state taxes. Please resond thank you Mary Coles
1170488	It appears that the IRS is encouraging taxpayers to efile. Why, then, does the IRS charge a fee for electronic filing?
1170497	Hello, I went through the IRS government website to find the free Turbo Tax that I was told about... Sure enough...it said Free Federal Return, so I filled it all in, and went to file. It would not let me file until I had paid \$19.95. It said I did not qualify, and gave 3 qualifications. one being "Salary under \$35,000" My adjusted gross income is \$26,087. It said to list "codes" to qualify for a discount. It did not specify a code for "Free Federal Return". In fact, it said the "coupon needed" was in the Turbo Tax "package" in a "booklet". I don't have much "expendable income", so I did not buy the Turbo Tax, but went to use the free version my brother told me about on the IRS site. His worked... I could not find a way to "qualify" for a "discount" - so I was stuck...It takes a long time to fill these pages out, and I really did not want to start over to see if it would be free the next time, or the time after... This was done late in the evening on March 29th, from email address gojohanne@aol.com. My phone numbers are Bus: 316-688-8688, Res: 316-744-1620 Please find a way to get my money back...I am extremely angry at this duplicitous behavior on the part of Turbo Tax. Turbo Tax is ripping people off - and not following protocol to be free if accessed through the IRS site.
1171308	I used the supposedly free Turbo Tax e-file system to do my step-daughter's return. The program would not allow me to e-file the completed federal return. It kept asking for a credit card payment before it would continue even though the previous screen had asked if you wanted to choose the "free" federal e-file option. There was an indicated fee for the state return but you were supposed to be able to make a choice between filing manually or e-filing both the federal and the state and just the federal (the free one). Even when I selected to e-file just the federal through Turbotax the program kept coming back to a payment screen before you could continue. I finally paid to submit the state return via e-file as well as the federal just to get done. I think this is a big rip-off and the IRS should be aware of it. Turbotax should not indicate free federal e-filing at the beginning and then pull this. I was furious.
1171701	I have Turbo Tax software for 2004 tax returns. I've completed a return (individual) and was wondering if I could link the Turbo Tax completed return, to the IRS.gov site, so that it can be filed without any cost. As it stands right now, Turbo Tax requires \$14.95 to e-file direct from their software. Thanks for your time and your help!
1168633	Hi there. I used the free file link from the irs.gov site to Free File with HR Block. When I

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Reference #	Question
	got to the "create an account" screen on the HR Block website there was a link that read "Returning clients sign in". Since I used HR Block in the past I clicked the link and signed in. When it was time to file the website informed me it was NOT free. I contacted HR Block and they told me the following: Shayla Ellis: You will need to go to the following website, and create a new username and password. CHARLES CORY: that is ridiculous. CHARLES CORY: so every year, i'll have to create a new usemame? CHARLES CORY: and then each year's filing will be online under different usernames? Shayla Ellis: Yes, in order to file for free, you must do this. Shayla Ellis: I apologize for the inconvenience. CHARLES CORY: it would be nice if you could waive the fee so i can do free file. Shayla Ellis: I am not able to waive the fee, because you went through the incorrect link. Once again I apologize for the inconvenience, You will be able to file your taxes for free, if you go through the website that I have provided for you. CHARLES CORY: even when i go through the irs.gov link it says "returning users click here to log in" CHARLES CORY: it takes you to the PAY site without warning you. Shayla Ellis: I understand, but that is not the correct way to file for free. CHARLES CORY: there is nothing on your website that says "if you are a returning user you will be charged!" CHARLES CORY: how was I supposed to know that I had to create a brand new username? Shayla Ellis: I understand your concern, and we are working on a way to inform our clients about this matter.
1172829	Thought I would try the "free" service this year, but when I started to use TurboTax, every other page I went to advised that I would be paying a fee when I printed or filed the return. I finally quit after 6 or so pages of information. I didn't want to finifh it, and then get hit for a service fee! I don't see that as being a "free" service.
1173008	I was very dissatisfied with your electronic filing sites. Because I live in the great state of California: 3 sites, plus Turbo Tax would not let me electronically file married filing separately. And because of this I have to wait AT LEAST 6 weeks to find out about my refund. Nowhere on any of those sites did it say electronic filing married/separately was not an option UNTIL the very end of the process
1173226	A problem I have encountered with the "Free-File" sites: Several will e-file the Federal Tax Forms for FREE...however...as we ALL KNOW the STATE TAX MUST BE FILED Electronically at the SAME TIME. Enter FEES CHARGED FOR STATE TAX RETURNS: ANYWHERE FROM \$7.95 TO \$19.95 TO \$24.95!!!! Also...the sites advise a form must be printed and mailed to the IRS AFTER the E-FILE is accepted.(???) When trying to click on to print form on 3 of the sites there is no response...thus NO FORM.(???) Also...had to change sites 3 times because e-file of prepared Tax Forms could not be transmitted to IRS without being rejected for Birthdate Error when the Birthdate was correct! This is ALL very frustrating when you have to redo...redo...redo. And then get charged by 3 different sites for the State Tax Transmittal when 2 of them were NEVER completed!
1173416	i used your "free" hr block service for only 29.95 I got screwed and you lied to me. someone please contact me. Bob Pissed
1173553	I e-filed federal and received refund quickly. Thank you. Iowa said to file with Turbotax and provided a rebate number to use for free filing. Turbotax did not provide an option for state tax only. They do not seem to have an option e-filing state only either. Should I just go ahead and e-file both federal and state assuming the IRS will automatically kick out the 2 nd federal filing? Thank you.
1173329	i used your "free" hr block service for only 29.95 I got screwed and you lied to me. someone please contact me. Bob Martin 717 9404916 Pissed
1173803	Your service at "Free Tax Return" is unsatisfactory. I can't get back to fix an error unless I pay a fee... and I suspect there is no way to fix the error unless the fee is paid---Their professional help is required????
1170150	To Whom it may concern, I had a technical problem with my printer and was unable to print my returns. How can I access my information and reprint them. Thankyou, Mark
1174931	While logged on and entering in your data on line, can you stop and start your process and log back on your account ?

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Week of March 28 through April 3

Reference #	Question
1175730	What happened to your easy e-file??? I don't WANT to go through a third part company. That's the whole purpose of going to the IRS?! Last year was fast easy and through the IRS website, now you have me shopping for a tax preparor. If I wanted to do that I could use the yellow pages.
1175883	I am trying to find out if any of the partner companies participating in the "Free File" program for e-filing Personal Income tax 2004 includes the form 1040-NR or 1040-NR-EZ for non-residents (from their web sites it is not always immediate). Thanks in advance for your help, Ignacio
1175633	Taxact.com does not provide free E-Filing of Federal Tax Return. They charge \$7.95 for E-Filing. Please remove them from your IRS website, Taxact.com is running a scam on the public. It's called bait and switch. The IRS is enabling Taxact.com's fraudulent activity.
1176723	while the below site would like you to think you can file your michigan taxes...its not available at this time..... FileYourTaxes.com: Free federal tax prep & eFile if you live in AZ, CA, DE, GA, IL, MD, MI, NC, NJ, NY, OH, OR, VA, WI. Also qualify if age 18 AND less. More details
1176201	My husband and I filed out e-file tax return through TaxACT, following your link stating that the federal e-filing was free. They charged us \$7.95 to e-file our federal taxes. Their page even states that it is free, but before you can finish filing it causes you to input a credit card number and charges your card the amount. I think this needs to be changed on your site so others do not get misled and made to pay a charge they are not wanting to pay. Thanks, D'Ann
1177218	TURBO TAX FREE FILE STANDARD FORM IS NOT ACCESSIBLE. PLEASE CONTACT THEM ON THIS MATTER THANK YOU
1166457	In February I used the freefile alliance site. when I got to the end they charged me for filing. My return was not accepted but I was still charged. Even though it was free file and not accepted should I have been charged? I later had my taxes done by an employee of H&R Block. This was accepted. Please get back to me, I feel I was cheated by the freefile alliance. Freefile, I shouldn't have believed this. Thank you for your time.
1163353	I WOULD LIKE TO FILE A 2002 RETURN BY EFILE FOR FREE--CAN I DO THAT
1163389	I need to e-file for the tax year 2002 Can I access free filing for the tax year 2002? I need to get that done while I still can.
1163516	I tried to use the Free File from H&R Block. I started it and then logged out. H&R Block sent me a reminder email and I used it to log in. What they didn't tell you (expect probably in very fine print) was that that was to log in to their standard program which costs \$29.95. \$29.95 is not a big deal but it just seems like trickery. I think you should tell them to stop it and maybe fine them. It doesn't seem fair that they can do that.
1163811	On 03/28/05 I went to WWW.IRS.GOV to file my taxes electronically. I went to the Free online filing page which took to the Free File Alliance Companies which I chose H & R BLOCK. H & R BLOCK states that it is a free federal online tax preparation and e-filing for all taxpayers. No restrictions. Everyone qualifies. When I finished filing out the pages at the end H & R BLOCK states that they want \$29.95 for Federal and \$19.95 for State. Why the charge for Federal? Is it not suppose to be for free? Maybe H & R BLOCK needs to be removed from your website if they are going to charge for Federal. They make it sounds like it free, until your done and at the end they want money! What can be done about this? It seems misleading to the average consumer/taxpayer.
1163995	hi - i just recently followed your "FREE FILE" link to do my taxes only to find that at the end, when i hit "file now" i had a nice \$65.00 charge deducted from my refunds???? this was through your web site to the turbo tax web site!! i didnt file however because i felt that this was false advertising and a big waste of my time! why do you advertise "FREE FILE" when in reality IT ISNT?? thank you for your time
1160795	All of them require you to type in personal information first before they will tell you if they will do it free. Please place a notice next to the services that will do the automatic extension for free. Thank you.

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Reference #	Question
1160492	I wanted to let you know that I find most of the "free" sites very deceiving and hard to use. I am avoiding those sites from now for my university students' forms...theirs will have to be mailed because I waste so much time using the e-file only to find at the END that they charge for filing the state, or some other pretext. What a sham. IRS needs to make e-filing for fed and each state make it free for those who earn in poverty level or are dependents. I buy the Turbo or Tax Cut or one on-line because my refund is large enough to pay for it.
1160921	You have a free tax service on your website that claims to be free if you use it. But at the end it asks for 23.95 for security. When you opt not to do that one it will then claim to send in your tax return but it changes your date of birth. I think I know what year I was born first it changes the month then it changes the date. Then it says it cant efile it because now you have to pay. Now this service is not free and it sucks you in but what gets me it was posted on your website. It is called No. 1 Discount Tax Return Service LLC.
1161299	I want to E-file my 2004 return. I qualify for all sorts of free-file benefits, but my internet connection is WebTV. Are there any free-file sites that are WebTV compatible? Thanks, Gretchen Engel
1161356	Re: I-file:when I fill in the info to guide me to a site it continues to return back to the original info and doesn't tell me why and doesn't provide me with a list of sites
1161357	This is a compliant with respect to the free-file service of TurboTax. I have spent several hours entering data to complete my federal (and NY State later) return. The program works well, despite some lack of automated features and the frequent suggestions to upgrade for a price to obtain more complete features. However, often when I want to continue with my return after logging on, there is a message "This page cannot be displayed." indicating browser trouble, etc. I think this is probably a TurboTax willful intention to to make the program unpredictably troublesome to access, probably something that does not happen with paid TuboTax for the Web. The IRS should investigate this discrimination against lower-income tax filers.
1161421	I used a free e-file site from the list on your page to file my federal return. They never told me how much my refund would be, they just filed my return. It was filed on 3/27/05. Please get back to me and let me know that you've received my tax return and please tell me how much my refund is. I also need to know what papers I need to fill out to file my state return (I resided in Indiana for all of 2004) and I need to know where to send those. If you cannot answer these questions via email, please tell me where to call so that I can get them answered. Thank you.
1161467	I went through this site to find a site to do free tax filing (assuming it would be safe). I went to freetaxusa.com. As soon as I entered my personal information (i.e.: soc. sec., birth date, etc.) it kicked me out of the website (claiming up-dates occurring) and I'm unable to access the website. Have I just had my personal information stolen? I've never used the internet before for this exact reason. I thought I could trust your website. Anxiously awaiting your response!
1161545	I did my federal and state tax return on Intuit's website which I linked to through the IRS site. I only wanted to e-file the federal return but I could not proceed without paying \$24.95 to e-file the state return, even though I checked the box stating that I only wanted to e-file the federal return. I could not continue and electronically file my federal return. This is infuriating and misleading and I am very disappointed with this so-called "free" online filing, which turns out not to be free at all.
1161659	The 'free electronic filing' you offer is horrible. I thought I would use it to file my childrens returns and found the process a waste of time. Constant marketing. I'd would think the government could develop there own electronic filing instead of using vendors who constantly market their own products. I'm staying hardcopy...which is more work for you. What a waste of government dollars!

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Reference #	Question
1161787	COMPLAINT about Turbotax Turbotax has WRONGLY and UNFAIRLY DENIED me FREE > filing of my 2004 NYS tax return. My IRS return was > accepted but my NYS tax return was rejected. I am > low > income and also eligible for EITC. I entered the Turbotax site EVERY time from the IRS > website Correct this problem ASAP. > > My son, who is my dependent, filed and both his > Federal and NYS state tax > were accepted and efiled free, as was appropriate! Chitra >
1161822	I filed with HR Block last yr and I went back to the site to file again. I made less than 26,000 and I believe I can get free filing, but it keeps saying I have to pay the fee. So I went back to irs.gov and went back into the site, but it won't let me get free filing. What do I need to do to get the service for free? I already have all the info saved with my username and password. Thanks, Ann
1176940	I attempted to fill in the questionnaire for Free File and it asked my age which I completed and then asked for my spouse's age. Since I have no spouse, I typed in zero, and clicked Continue, but it kept returning to the same page with the same question. How can one type in the age of a spouse if there isn't one????????? I have just begun and am fed up already, so I will just do the old fashion paper submission.
1160199	I have been using the H&R block e-file for my daughter's 1040EZ. I have received a bill for 39.95 that was unauthorized. i realize I can protest on my credit card, but do you have any influence? Thomas
1160218	Then please forward it to whoever in IRS is responsible for the 'Free File' program. I do not have their email address. Thanks N Subramaniam
1160229	I see that it is possible to file a free return with a tax preparation software if I qualify and there is a lot of good and useful information. However, I can't find a link to get to the point that I can file start or continue my return. I was on the site a few weeks ago and easily found a site to help my kids, but now I need to do my own. I know the links are there, but I can't find them.
1160276	I would like to file my Federal Income Tax with e-file. It would be a simple 1040 for and individual. I have successfully filed my Ohio State Income Tax but can't seem to find where on your website to begin the filing process.
1160318	I have tried to find "free e-file" through your website, but the offers I have checked require the refund to be deposited in a third party bank for which there is a charge. Are any of the free offers really free and if so, which ones? Thanks.
1161846	Your web site lists TaxAct.com as a free tax filing provider. However when I used it, it turned out that its not free. After I was finished with the return It brought up a charge for 9.95 dollars. when I called there customer service about it they said I am using there Delux product. Which I never used. Please remove TaxAct.com from free efile providers otherwise more people will fall victim to this trick.
1161932	Since the IRS benefits immensely from people filing their tax returns electronically; resulting in huge cost savings/benefits by avoiding errors in manual processing and returns handling, --- the e-filing should be FREE! Not from tax preparing businesses, but from the IRS. The day you do that is the day I will file electronically!!
1162734	I qualify for all sorts of free-file benefits, but my internet connection is WebTV. Are there any free-file sites that are WebTV compatible? Thanks, Gretchen
1162762	I fill in the info to guide me to a site it continues to return back to the original info and doesn't tell me why and doesn't provide me with a list of sites
1162047	I am really really pissed off because TurboTax and Tax Freedom tricked me. > > I could not efile my NYS tax on Turbo for free > even > > though I qualify.
1162487	Can I access free filing for the tax year 2002? I need to get that done while I still can.
1160360	I have been very frustrated with the H&RBlock Free File site. There is no place to get a phone number or ask a question without a fee. It is VERY slow....I have been at it for 4

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Reference #	Question
	hours. Then at one point it has just frozen and does not move when clicking NEXT. I waited and waited and finally closed. dlewis23@dnet.net How can I clear my information from the site? They have saved it. I appreciate any help you can give me.

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Week of April 4 through April 10

Reference #	Question
1195677	I went to the turbo tax 'free file' site and after filling out my federal forms was asked for 29.95 filing fees and 24.95 if I wanted direct deposit. How I ask you is this free?
1184647	I have tried to use the free filing capabilities offered on your web site. I just wanted to let the IRS know that I selected esmartax from the list of free providers. Their site appealed to me because I have a Master's Degree in Accounting, I have already prepared my return and only wanted to enter the data and file the return. I spent over two hours entering the preliminary data prior to getting to the form 1040 only to find out that their program would not permit me to enter amounts in the form and there are no instructions provided in how to make the program work effectively. I e-mailed the company asking for help and have not received a reply. I just wanted to provide the IRS with feedback on one of their providers so that you can re-evaluate when you determine next year's providers.
1184616	I need to know how to find the list of alliance member so I can choose one to free file
1194856	I started to file my return on the free 1040 tax return.com but I did not complete the form or process the return. I have a user name and password and my information is still in their data base, I believe. I have since used a different website that was easier to follow, and the IRS has accepted my return on a different website (taxnet.com) I want to make sure the information is deleted from the website free1040taxreturn.com that I did not finish and I m not sure what to do. If someone could help me I would greatly appreciate it. I am a little concerned about having my info on that website.
1193583	I AM UNABLE TO NOTIFY THE ABOVE COMPANY TO ASK THEM TO REMOVE MY PERSONAL INFORMATION, INCLUDING MY SOCIAL SECURITY NUMBER, FROM THEIR SYSTEM. I NEEDED TO > PROVIDE THAT INFORMATION IN ORDERV TO REGISTER. ONLY > AFTER COMPLETING SEVERAL PAGES WAS I INFORMED, THEY > DID NOT HAVE THE SOFTWARE TO SUPPORT MY RETURN. > THEY CHARGE FOR ANY CONTACT WITH THEIR CUSTOMER > SUPPORT. > HOW DO YOU INSURE THIS COMPANIES WILL NOT > MISUSE MY SOCIAL SECURITY #? > PLEASE HANDLE THIS PROBLEM WITH: > no1-discount-e-file-tax-return-service > > I HAVE HAD MANY DIFFICULTIES IN DOING A RETURN WITH > ANY OF THE SO CALLED FREE EFILE COMPANIES. OFTEN > THEIR FREE SECTION DOES NOT WORK PROPERLY AND I HAVE > BEEN UNABLE TO COMPLETE AN EFILE. > JULIE >
1193288	It seems that all the companies allow free federal returns, but charge for state returns. Is it possible to do both free on the web? If not is it possible to e-file my federal return and then paper file my state returns?
1181643	On websight is fine, however you advertise that some companys do the efile taxes for free, however I find this not to be so in all cases. I tried to file my daughters taxes and she only made around 3,400 dollars and the sight wanted to charge \$30. If there sights are not free, I wish they would say what the requirements are, I feel this is false advertisement.
1191651	I have been unable to access a free e-file provider through the "so called" irs web site. Why can't irs simply put a way to access this service without the hassle from private business? E-file saves millions of dollars with less errors on returns and certainly benefits the government.
1191167	I tried to e-file my sons 1040EZ tax return for free by using Turbo Tax. Their site and instructions were "conveniently not clear" so when the return was completed there was a charge to file the return electronically; which should have been free as publicized. Shame on the IRS for letting them get away with this scam!! They need to be very clear on the showing the route to free filing as opposed to getting to the end and find out there is a charge. The IRS needs to take control and responsibility for getting a process that works for free e-filing. You people remind me of the congress who allow lobbyists to write legislation. G.J.
1181661	Can you tell me anything about the company you advertise for free file the one that just says on line taxes free file
1191931	I made the cardinal error of changing my last name without proper government permission

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Week of April 4 through April 10

Reference #	Question
	on my tax return - got a bit ahead of myself. H&R Block has seized on this - the website does not offer an option to fix this error myself - the only choice they offer is their "professional tax assistance" which I do not require, nor do I wish to pay for since I haven't requested it. As of now, they are holding my return up in efile hell. Apparently, I can't correct this unless I give them money, and I'm not willing to do that, since what I signed up for was a free efile. How do I get my return back from them? Any effort to do so results in a request for my credit card number, which being a free efile, they should not require, and are not getting.
1181734	I linked to the website www.taxengine.com for free online tax preparation and am being told that before I can either e-file or print I must pay 29.95. This is after I have spent my time entering all our information into their site and was expecting it be as promised - free. Sincerely, Sandra K. Williams
1192040	A suggestion on how to make taxes simpler for taxpayers: - Provide FREE E-File for Federal and State tax Returns (this year and every year). Why does a taxpayer have to pay someone else (HR Block, for example) in order to pay their taxes? Create an online, IRS-approved, tax return preparation website. A lot of taxpayers are falling victims to many tax scams out there because they don't know the entire tax code (can you blame us?). Many tax scammers out there claim they are aware of tax deductions that most people don't know about. Taxpayers who don't know better want to believe in those deductions. It's a tax code that's continually changing and it is unrealistic to think every taxpayer will know every deduction that they can take. Deductions should be clear and simple and they should be for everyone. The IRS-approved, tax return preparation website should give every taxpayer every deduction that they are entitled to. It shouldn't be a big mystery, it shouldn't be a research endeavor for the taxpayer to find all qualified deductions. Make it user friendly, so that answering simple questions will automatically determine eligibility for deductions and adjustments. A taxpayer should not have to pay any more nor any less than they have to by law. Every penny overpaid by taxpayer should be returned to them without them having to ask for it. The current situation is that the taxpayer must take the initiative to research all deductions that they qualify for and then submit their request for refunds for overpaid taxes. In a situation where the taxpayer has to take the initiative to find their deductions and their due refunds, we will continue to see these taxpayers falling victims to tax scammers claiming to know of deductions and adjustments that most people don't know about. An IRS-approved, tax-preparation website should provide taxpayers an equitable result whereby taxpayers receive the entire refund they are entitled to and, thereby, reducing tax scam victims, and simultaneously, ensure full payment of taxes due to the IRS.
1193895	I just e-filed my taxes, but the site didn't instruct me on what to do with my W-2's. Do I mail them in as usual?
1192335	How do I access my return which I started to process rzubyk@yahoo.com ?
1193209	I filed my taxes through the supposedly free IRS website. I chose H&R BLOCK and clicked on their free file icon. When I had finished my taxes they had charged a fee of \$29.95. When I sent them messages and ask why I got charged, they just tell me the benefits I have gotten for the \$29.95. I had a basic 1040 and did not ask for assistance at any time. I went back through the steps many times to see if I had clicked something to get charged. I asked H&R where I went wrong and they will not tell me. I filed this way last year and had no problems. I paid the \$29.95 rather than go through the hassle of re-entering all my information. I thought that H&R would remedy the situation rather than ignore me.
1193229	Why did I get charged a fee for going through the irs.gov website. I clicked on www.hrblock.com/goto/ffa like I was told. Please tell me where I went wrong so I don't get charged again
1192836	Hello...I was wondering why your site claims that the free TurboTax internet filing is "everyone qualifies" when in fact they charged me for BOTH my federal and state returns,

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Reference #	Question
	and when I contacted them directly they sent me a VERY long list of qualifications that one must meet to qualify for "free filing"...this needs to be clarified, obviously...the charge popping up three weeks later was not pleasant!!
1192392	The free efile service is not free. Paying and then sending in a rebate information is not free. It just as easy to place a stamp on the return and send it in. So year after year I am sending you lots of paper. It costs you more than it costs me.
1182385	Once I logged onto IRS.gov I went to TurboTax and filled out my 1040 using their service. At the end of the process they charged me a fee, even though it clearly states that this is a free service. I never received a promotion code. Where did I go wrong? David H. dcrandall@countryschool.net
1182943	I tried to use Free File from your website and I consider it a disaster. I chose H&R Block because I recognized the name, but I am not happy with the whole process. It kept putting in deductions I knew we were not entitled to and then when I asked a question about it, it was very unclear what to do and they kept wanting me to purchase an upgrade. My biggest concern was being unable to delete all the personal info I had already completed when I decided this was not going to work. I thought with Free File I could just fill in the online 1040 form and submit that way which would have been so easy to do since I had already completed the paper form. I'm disappointed with the process. Thanks for listening. If you have suggestions to make it easier or if I did something wrong, please let me know. Thanks, Linda
1183745	I went through the irs website and chose a company, it's link is under FreeTax Return, the web site is http://www.no-income-tax-return-submitting-specialist.com . I registered by giving out my ssn & my spouses along with other info and then it said my session was timed out and I'd have to log on again. I tried several times to log in and I have the right password but it just keeps telling me my session has timed out. So now I'm thinking it's some scam company. What should I do?
1183069	AFTER VIEWING YOUR WEBSITE I CHOSE TURBO TAX TO E-FILE MY FEDERAL AND STATE TAX FORMS. AFTER THE TIME IT TOOK TO ANSWER THE QUESTIONS AND MY AUTHORIZING \$30.00 FOR THE "STATE" RETURN, I RECEIVED THE MESSAGE THAT "INTUIT COULD NOT UNDERSTAND THE MATERIAL BEING SENT". I HAVE TRIED TO SEND THE INFORMATION NUMEROUS TIMES SINCE THE FIRST TRY AND GET THE SAME MESSAGE. I HAVE THE FEELING I'VE BEEN RIPPED OFF.....AND NO CLOSER TO E-FILING MY TAX RETURNS THAN I WAS BEFORE THIS TIME CONSUMING AND COSTLY ENDEAVOR
1184139	Where do you find the Start Now button I can not find it on the home page where is it, thank you for your time.
1190354	I want to use Turbo Tax for free efilng. When I click Turbo Tax I have two options. One Leave IRS site and the other back to previous page. Which do I click to have free efilng. Thanks
1190369	I want to use Turbo Tax for free efilng. When I click Turbo Tax I have two options. One Leave IRS site and the other back to previous page. Which do I click to have free efilng. Thanks
1190469	How do I handle required attachments if I am using Free File (or any electronic filing)? I have to file an amortization election statement with Form 4562...how do I send it with, or link it to, my electronic return?
1191018	After I fill out info for free filing I ca'nt go further, it erases all info I put in
1190521	Hello: How do I handle required attachments if I am using Free File (or any electronic filing)? I have to file an amortization election statement with Form 4562...how do I send it with, or link it to, my electronic return?
1191160	Guide me to service After I fill out info for free filing I ca'nt go further, it erases all info I put in
1182722	I started a return thru irs.gov and continued on to turbo tax, the free return I was almost done, but I was missing some info. I now am trying to find the site, but cannot. Can you tell

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Reference #	Question
	me how to get it. thanks
1179355	I used Turbo Tax to prepare my return, & wish to "free file" electronically-which appears to be an option on the IRS website, but I can't seem to accomplish this--it asks me to download Turbo tax(which I've already paid for & installed)& when I go to the "free file" link, it wants me to start my return over.....it's complete, I'm just trying to file!
1179826	To whom it may concern: I went through IRS.gov to efile for free (American citizens are already paying enough taxes - we shouldn't be taxed additionally in order to prepare the tax forms). I selected the Turbo Tax program from the list offered on IRS.gov. I learned that I could prepare my Federal taxes for free and file online, but that if I wanted to file my state taxes, I would have to pay a \$30 fee. I only wanted to file my Federal taxes for free. After I had gone through the entire process of working out my federal taxes, it became quite clear that I would not be able to actually file the resultant forms unless I paid the \$30 for the state tax filing as well. I tried every way possible to find a way around having to pay the \$30 fee for the "state filing" just so I could get my federal forms filed. Alas, it was not possible. It was, in fact, a classic bait and switch. This is completely and totally false advertising, and I am furious. I finished filling out the forms with turbotax at about 1am. I was then (and am now) tired, cranky, and I jst want to go to bed. I wanted to file my taxes for free, and go to bed. I ended up paying the \$30 fee because I am tired and fed up and just wanted to get my stupid taxes filed tonight. But I am sad to say that I feel as though I have been duped by both the federal government and turbotax into paying for a service I was promised would be free. I hope that you can resolve this. In fact, I think someone should take the responsibility for getting me my \$30 back. I just can't even believe the unethical nature of this bait and switch. Folks should be ashamed. Sincerely, Kiersten B. , Ph.D.
1189196	I signed up with H&R block. They want to charge me \$29.95 for filing my State taxes. I am almost positive I chose their other offer for \$14.95. There is no way for me to change it. I would also like to change my Federal from paper file to e-file with them.I am having problems changing it. Can I try another company? Norah
1189432	My daughter filed her taxes on your website and was told from the beginning that it was a free efile. When she got to the end and ready to submit, she was told she would have to pay \$9.95 for filing both her federal and iowa taxes. Why is she being charged when she only made \$8000 for the year?
1179709	Back in February I entered your site to efile my return. On your free file alliance companies page I selected Turbo Tax. At the end of the process they asked for a credit card number to compete the return. Although puzzled by their question since it was supposed to be a free efile I provided the number since I was at the end of the process. A company named Intuit (520 901 3124) charged \$29.95 for the return. I disputed the charge but they refused to delete the charge. Since this company is listed as a free file alliance company, am I responsible for this charge? If so, why is this company listed on your free efile page when their service is not free? Thanks John F. jfmachowski@hotmail.com
1189569	To Whom it Concerns: Re: E-filing sites/links A lot of the sites listed for free e-filing just don't work. One has a broken link. Several others "hang up" and stop working when they're supposed to be saving information, and some sites say they're for everyone, but then tell you they can't support your tax forms after having you fill out an extensive questionaire. I would like to be able to go to a reputable site linked from the irs.gov site, fill in the info, just as it is on my 1040, and actually have it work. I've tried 4 sites so far and still haven't gotten past entering basic info or W-2 information before they get "hung up" and either stop working or boot me back to the log-in page. The IRS should have its own free e-filing--OR--the sites linked should have to work. L.
1196397	I have a complaint about H&R Block. I logged on to their website through IRS.gov each time but they still charged me for federal tax preparation \$34.95. I didn't get anything but their standard service, which they advertised as free to everyone without exception. Just

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Reference #	Question
	thought you should know.
1196401	I am one of the many that waited until the last minute to e-file. I am trying to use your "Guide Me To A Service" page. I entered all of my information, and selected "submit". Nothing happens. I don't receive a pop-up or anything. Please fix soon!
1189814	You should remove TaxEngine.com from your list of suggested E-filing companies. I have now have two major issues with their website. 1. They tried to charge me the full \$29.95 even though I linked through the IRS website. An e-mail to them solved that one. But..., 2. When trying to pay, it would not take any of my credit cards(which are definitely good). I assume it is an attempt to get me to select one of the other payment options that could cost me \$39 in finance charges. I can't believe the IRS allows private companies to scam taxpayers and does not offer their own e-file software that is truly FREE!!!
1196425	IS THE WEBSITE DOWN?!?! I HAVE CLICKED ON THE START NOW BUTTON & NOTHING HAPPENS!?!?
1179953	I was recently informed that an individual can prepare and file their Federal Income Tax return through Turbo Tax and the IRS at no charge. Is this correct? I was always under the impression that an individual would first prepare their return through Turbo Tax and pay for it when printing or e-filing. I look forward to your reply.
1196524	Since I am a low income student I was looking for free e-file on your site and found this link http://www.efiletaxreturns.com/ The website took me through many pages of verifying my name, social security number, and birthdate, and then after an hour of entering information, it tried to charge me \$24.95 after saying it was free federal e-file the whole time. The site would not even allow for me to print the return. After all it was not free; purely a gimmick. Now I am concerned for the information they have on me because they deceived me, this is enough reason to believe that they will sell and share my identity with 3rd parties or run a scam. My name is Andrea 07/21/1972 I only had \$819 in income last year and did not have any special forms or state tax return with the return and the site pull a fast one on me. The site purely lied and deceived me by saying it was a free e-file for low income on the IRS page and on its website too up until the last part with an unusual high amount of asking for sensitive info. Anyhow, I did receive a notice from the IRS that I did not need to file a return because I made less than \$3000; the refund would had been \$40. If you do not deal in fraud concerns, would you pass this to the official who does? Thank you, Andrea
1196485	i have a 17 yr old that needs to file. it is my understanding that they can file for free. i have yet to find a site that is "free". could u please help direct me to the right place.
1196486	I HAVE CLICKED ON THE START NOW BUTTON & NOTHING HAPPENS!?!?
1196493	You might better help taxpayers (next year) find Free File Services which meet their needs by adding the 10 or so most common forms, as in "Do you expect to complete Schedule C: Net Profit From Business?" as a matching criteria. As it is, I'm going through most of the list and searching for their forms list to see if they have this and a less common form. Some don't. Some do but only in an extra cost package. Some do in the free package. It's tedious.
1179755	I've tried 2 of the free e-file companies and found that both H&R Block and Turbo Tax make it very difficult to get logged into the free tax filing program. Multiple attempts at H&R Block never allowed me to login. Turbo Tax allowed login only after contacting them and having them establish the login. Turbo Tax at least allowed you contact them for free support. H&R didn't even provide a contact area.
1180443	I was under the impressions that the IRS wanted people to file online and that it was free to do this. Please tell me where that would be or if this is not the case. If you would respond as soon as possible, I would really appreciate it. Thank you for your time and attention to this matter. Nancy
1180444	I hit the free on line filing, then the second page then it ask more question. How I can go direct to file my Tax Filing

2005 Free File Customer Service Feedback Extracts
Week of April 4 through April 10

Reference #	Question
1180514	Can you tell me if TaxAct online is up and running at this time? Yesterday Sunday 4/3/05 it said they were down for maintenance. Today I can not get my comparison report w/last year nor get my just completed tax return for review before filing. Everything seems to be working properly from my end.
1180949	Ain't it great that the IRS pays these people to take our returns electronically? And you get literally dozens to choose from! OK, let's look at them and see what they have to say.... 1. Nope, won't help you unless you agree to use Internet Explorer. 2. Nope, pops up a white screen if you want to see the "contract" you're agreeing to. 3. Nope, says the security of the information you provide is solely your own risk. 4. Nope, thinks "mother's maiden name" is secret enough to use for identification. 5. Nope, won't do some of the forms I'll need, such as Sched C-EZ --this is actually half of the list. 6. Nope, won't believe there's a plus sign in my e-mail address. 7. Nope, says if they make a mistake, too bad. 8. Aw, shucks, there's nobody left! Sheesh! WWG P.S. I left out the ones that the IRS told me up front wouldn't help--because one or more of - more than two W-2s - not expecting a refund - not in a state they can charge me for - not in the income range they take - not in the age range they take - not eligible for EIC, - etc.
1187917	How is the most secure way to efile my taxes. I have been using turbo tax, and mailing my printed tax forms, for several years but I have been hearing about all the problems with identity theft so I am not comfortable broadcasting my tax information across the web. How often does this efile have problems with outside people obtaining the tax information from the web. Is there a site that is more secure to efile from than my home internet connection on my computer? I understand that some information on the internet is coded or scrambled but anything that can be coded can be uncoded. If the information is coded and sent out on the internet is not that information automatically a target for attack? How secure is coded information? How often do code breakers attack tax information files on the internet?
1188135	If I start my tax preparation & have to stop for whatever reason, will I be able to go back later & find my tax form application & complete it? Tks. Jean Gibbons
1188436	A friend told me you could download turbo tax for free from your site. How do I do this? Cathy
1188481	Customer has stated that she never finished her e-file with ExpressTaxRefund.com but the tax return was sent anyways. Customer states that she never received a confirmation of e-filing or anything from the company ExpressTaxRefund.com stating that she would be owing any amount of money. Customer was charged \$104.00 for a refund of \$150.00. Customer wants a call back regarding this situation. The URL address of the e-file company is www.expresstaxrefund.com When customer tried to contact their Customer Service Department they were rude and would not speak to her. She was hung up on when asked to speak to a Supervisor. Customer is extremely frustrated and would like some information on what she can do.
1188904	Dear Sir: How is the most secure way to efile my taxes. I have been using turbo tax, and mailing my printed tax forms, for several years but I have been hearing about all the problems with identity theft so I am not comfortable broadcasting my tax information across the web. How often does this efile have problems with outside people obtaining the tax information from the web. Is there a site that is more secure to efile from than my home internet connection on my computer? I understand that some information on the internet is coded or scrambled but anything that can be coded can be uncoded. If the information is coded and sent out on the internet is not that information automatically a target for attack? How secure is coded information? How often do code breakers attack tax information files on the internet? Sincerely, Tim
1197246	Sir or Maam, It has come to my attention that H&R Block is doing something very misleading this year. I used them for free e-filing last year with no problems. I clicked on them again through the IRS.gov website and selected the free filing option. I again used my user name and password from last year and was able to import some of the previous

2005 Free File Customer Service Feedback Extracts
Week of April 4 through April 10

Reference #	Question
	year's information with no problems or notifications from them. I got to the end of filing, and it only gave me the option of their \$34.95 filing fee with no way to select the free service. I then contacted their customer service via chat, and discovered that by importing my info from last year incurred the fee, and their service was no longer free. The only way for their filing to be free was to create a new user name and password. I believe this matter should be looked into as it is very misleading and bordering on unethical. At the least H&R Block should display a warning that says this will not be free when you log in with your previous account info. Thank you for looking into this
1197324	I tried the #1 Discount Tax Return Service (http://free.number1tax.com/) from your site. It is, in my opinion a bogus service and a consumer rip-off. You should be ashamed of yourselves for promoting this scam! I used the site and efiled my return, only two have it rejected. It turns out that you can only use the service if you live in Alaska! But nowhere on the site are we warned about that!. I tried to complain that my return was being rejected because customers are not allowed to change their state of residence from AK to the proper state. My complaint cost me \$1.95 and the response (a week ago) was "we are working on the problem." One has to wonder how many thousands of us poor boobs they have ripped off and left without a filed federal return and a short \$2.00 for trying a service you are promoting as free.
1197425	Can I efile my taxes on the IRS site? If so, how do I do this?
1197395	I went to your web site and chose the service I want to use but can't find a way to open it. Maybe I'm just tired of looking, but I don't see any buttons or instructions for getting down to the business of completing my tax form. You give too much information and salesmanship on how easy and "exciting" your site is to use. I really just want to get into the service I chose and complete my 2004 income tax return.
1180502	I already used TurboTax to prepare my taxes. How do I download this information for free filing?
1195957	I appreciate the "potential" opportunity for free filing but my >experience with your TurboTax on-line access was not good. As it turns >out (after spending 1.5 hours inputting data) the service is NOT free. >Yes, I could have filed with them without paying for the federal return. >However, as it turns out, I could not file my federal return UNLESS I also >used their state service, which I would have to PAY for. > "FREE" is misleading.
1196095	On your page, Free File Alliance Companies (http://www.irs.gov/app/freeFile/jsp/all_offers.jsp?), you list 123EasyTaxFiling.com (http://free.123easytaxfiling.com/). On their site the thawte logo is dead (no link), and thus their support of adequate security measures can't be verified. I think you should remove them from your list until/unless this changes.
1196211	I visited your site because of advertisements I had seen regarding e-filing for free. I went to TurboTax via your site and efiled. However, it was not free. I am being charged a fee because I wanted to have my refund direct deposited. I knew I'd have to pay a fee for my state return (last year was \$14.99), which I thought you should know is twice the fee (this year via the website \$29.99) if I had purchased the product at my local store. So, the "free" service charged \$24.95 for a refund processing fee. That was not stated anywhere in the ads for e-filing for free nor on the IRS site when I clicked on the "get details" information link. I thought you should know this and maybe it should be more clear. It doesn't seem fair that a portion of my refund that I am to receive I have to pay to have it processed. I could have printed my forms and mailed them and not have been charged a fee, but that defeated the purpose of e-filing. Sincerely, Bambi
1184763	I NEED A 1-800 # REGARDING TURBO TAX E-FILING, THANKS
1185911	Dear Sir or Madam, I attempted to use FreeFile with Turbo Tax. After completing the tax forms and instructing that the federal return be e-filed, Turbo Tax refuses to do so if there is also a state return that needs to be filed. Instead, the program asks for a credit card number to pay for the state program and continues to refuse to e-file the federal return. I then used the desktop version of Turbo Tax, paid for the state program, and again

2005 Free File Customer Service Feedback Extracts
Week of April 4 through April 10

Reference #	Question
	attempted to e-file (a "service" which they charge \$14.95 per return for). Again Turbo Tax would not e-file, even after collecting credit card information to pay the e-file charges. After spending almost \$100 for the program and services connected with it, I ended up sending my federal and state returns through the US Mail. I contacted Intuit and told them about the problems; however, their response is that they're too busy to answer all problems individually. Thank you.
1185960	Hello, I am having difficulties accessing the site that I began entering information to last evening (4/4/05). I began entering and saved the site. However, the time expired and logged me off. I was able to find the site again and have successfully logged in. However, the "Continue" button is not opening the account to allow me to access the filled out forms to edit and/or submit. (I have included that page in this email for reference.) My email address used for the account set up is lesilytle@yahoo.com but you can respond to either with a solution. I am hoping you can assist me. Thank you in advance!!
1186280	Hi, I'm trying to have the Free File system locate a Free File Alliance Company for me. After entering all the data requested, I get the same blank form back again with no indication of any errors or anything. I've done this twice with the same result each time. Can you help? -Don
1186376	The free federal filing that Turbo Tax claims is deceiving. They will not let you continue with the federal filing until you pay the \$29.95 for State filing. Making the cost \$29.95 whether you want to file your state returns through them or not.
1187108	I have looked all over the IRS website and I am having a very hard time finding the link to actually e-file. It is not evident or apparent and this is very frustrating. There's loads of information to get people interested in and trusting of e-filing, but when you're ready, WHERE'S THE LINK TO ACTUALLY FILE?

**Additional Response to Senator Baucus to a
Question Posed During the Hearing**

Question: For the record, what is the number of criminal prosecutions recommended by IRS? Of these, how many were prosecuted? Of those, how many judgments did you get favorable to the IRS, and the amounts?

Answer: The total number of Correspondence Exam Closures for FY 2005 is 985,500, the total number of individuals 979,000 with a total amount of \$7.4 billion.

ADDITIONAL RESPONSES TO SENATOR GRASSLEY TO
QUESTIONS POSED DURING THE HEARINGDEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

July 5, 2005

The Honorable Charles E. Grassley
Chairman, Committee on Finance
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

During the April 14th hearing regarding the Tax Gap before your committee, you asked me about a recent study by the Transactional Research Access Clearinghouse (TRAC), a research organization located at Syracuse University, that released a report which states that while large corporations involved in agriculture and manufacturing are nearly always audited by the IRS, large banks and insurance companies are only audited 20 percent of the time. Specifically, you were interested in the risk analysis the IRS uses to allocate corporate audits and an explanation for what appears to be disparate treatment.

Compliance risk is best described as the difference between true tax liability and that reported on a tax return. Estimating compliance risk for our Large and Mid-Size Business (LMSB) taxpayers is very difficult because LMSB taxpayers are the largest, most complex, and sophisticated taxpayers in the world, operating in markets characterized by increasing globalization, and technological, industrial, economic and regulatory change.

In order to determine compliance risk, we divide our LMSB taxpayer base into two parts: Coordinated Industry Cases (CIC) and Industry Cases (IC). We apply pointing criteria to the largest of our cases (those with assets of \$250 million or more) to determine if a taxpayer will be included in the CIC program. All LMSB taxpayers not in the CIC program are in the IC program. The pointing criteria consider size, complexity, and compliance potential for each taxpayer. In late FY 2003, we updated the criteria. One change was to use a discounted weight for financial service industry assets to reflect the fungibility of those assets and thereby not overstate the size of financial service organizations relative to corporations in other industries. This change was made beginning with audits initiated in FY 2004 and will be reflected in completed audit results and coverage over the next several years.

The IC cases are scored for their relative risk using a discriminant analysis methodology referred to as DAS. DAS uses *operational* audit results. Because of their size and complexity, these cases were not subject to TCMP or NRP-like studies. We apply the DAS methodology to the total population of IC returns to obtain an objective ranking of returns for compliance risk. The inventories of risk adjusted audit inventories varies across industries.

Currently, the DAS methodology, as well as the risk assessment in planning CIC examinations, considers historical and projected audit results as the starting point for estimating compliance risk and for assessing the efficacy of any resource allocation policy. However, the main challenge to applying historical results is that extended periods are required to obtain complete audit results for LMSB taxpayers. During this time, we must account for changes that take place to adjust current risk levels and resource allocation policies. For example, we are re-evaluating risk assessment methodologies in light of the data that will be available as a result of the new schedule M-3 requirements and forthcoming e-file mandate.

The financial services industry includes commercial and foreign banks, diversified financial institutions (i.e. brokers, dealers, etc.), and insurance companies (life, property and casualty). Additionally, all real estate investment trusts (REIT), regulated investment companies (RIC), and real estate mortgage investment conduits (REMIC) are aligned to financial services. These latter entities comprise 25 percent of the financial services taxpayer base and we believe them to be low risk pass through entities.

First, the issues in REIT, RIC and REMIC filings are more likely to involve investor reporting on individual and other flow through returns, than tax issues on the primary higher-level return. Second, with specific reference to RIC filers (mutual funds), the tax status exists primarily to flow income to their investors. The motivation is to recognize all income currently. Finally, we consider it significant that they do business in a highly regulated or structured operating environment. Until several years ago, the single most significant tax issue for RICs was the tax treatment of fees charged by the fund to its investors. That issue was resolved globally through an agreement with the securities industry on the treatment of the fees: an agreement that was a precursor to our present-day Industry Issue Resolution Program. Now, because the issue no longer exists, we place less emphasis on these taxpayers in our examination workload.

Accordingly, we focus the majority of our attention on the sub-industries shown below. Using recent published public data and quickly running through the lists, we can say the following:

- *Commercial Banks* – 43 of the top 50 banks¹, ranked by total assets, are under examination or are a part of a CIC case as a consolidated subsidiary and were part of the risk assessment and issue prioritization process.
- *Diversified Financial* – 20 of the top 25² diversified financial institutions (i.e., brokers, investment bankers, etc.) identified by Business Week, using a combination of business size factors, are under examination or are a part of a CIC case as a subsidiary.
- *Insurance* - 21 of the top 25³ insurance companies identified by Business Week, using a combination of business size factors, are under examination or are a part of a CIC case as a subsidiary.

The TRAC study calculated LMSB coverage rates by industry by dividing the number of examinations closed in an industry in one year by the total number of filers in that industry. However, as explained in our submission to TRAC (March 2004), we stated that, in general, LMSB industry examiners are assigned the returns of corporations within their industry and also outside of their home industry based on workload availability. LMSB aligns its resources geographically to areas where there is a high concentration of industry filings. For example, the financial services industry maintains its headquarters in New York City. Its resources are concentrated in the northeast, south to North Carolina and west to Minnesota and Nebraska through the Ohio Valley. Resources assigned to other industries examine financial services taxpayers further south and along the southern border of the US and up along the west coast. Line authority is through those other industries, but the financial services industry provides the technical guidance, assistance and direction on the cases. Similarly, the financial services industry examines taxpayers in other industries where they have the material presence.

Thus, simply dividing the number of examinations by the number of filers, and including low-risk regulated work in the equation, misrepresents the coverage rate. A more revealing analysis would involve dividing examinations of financial service industry taxpayers by the number of those industry returns filed, net of the REIT, RIC and REMIC filings, which have little or no risk due to their operating environment, as described earlier.

We recognize that, even in using our methodology, a disparity exists in the coverage rates among the industries, with financial services having the lowest rates. However, the disparity is less pronounced than the TRAC study suggests.

¹ Data Source – SNL Financial LC

² Data Source – Business Week, April 4, 2005

³ Data Source – Business Week, April 4, 2005

One factor impacting coverage rates is the LMSB financial services resources dedicated to abusive tax transactions, the promoters, and facilitators of these transactions. This workload is most heavily borne by LMSB financial services industry personnel. It is significant to note that pursuit of promoters is not reflected in our audit results or coverage calculations. However, promoter investigations may nevertheless include investigation of a financial institution's involvement in an abusive tax transaction. An example of the impact of abusive tax transaction investor workload is reflected in the fact that they represent 17 percent of total CIC financial services large corporate closures in FY 2004. This number increases to 69 percent of the workload when we account for Joint Committee, TEFRA, and other formal claims closures. When and if abusive tax transaction and promoter activities are reduced, we will re-deploy resources to income tax examinations of financial services taxpayers, and in support of other industries as required. Also, we recognize the growing importance and impact of the financial services industry on tax administration, and LMSB is addressing this concern through its hiring initiatives and an annual strategic-level risk assessment that involves the redeployment of resources to meet the challenges the assessment reveals.

You also requested that we provide industry-by-industry audit rates by size of firm for large and mid-size corporations for the last five years and the amount of tax voluntarily paid by each sector in response to IRS audit. The data we have on this topic is lengthy and complex and we recommend that it be provided to you in a briefing. Our Legislative Affairs office will contact your staff about scheduling a briefing on this topic at their convenience.

Thank you for the opportunity to clarify our position on this important issue. If you have any further questions please call me or Floyd Williams, Director, Office of Legislative Affairs at (202) 622-3720.

Sincerely,



Mark W. Everson

HEARING BEFORE THE UNITED STATES SENATE
COMMITTEE ON FINANCE

“The \$350 Billion Question: How to Solve the Tax Gap”



April 14, 2005

Washington, DC

J. Russell George
Treasury Inspector General for Tax Administration

Chairman Grassley, Ranking Member Baucus, and Members of the Committee, as the new Treasury Inspector General for Tax Administration (TIGTA), I appreciate the opportunity to appear before you today to discuss the scope, size, and nature of the tax gap problem, as well as recommendations for closing the tax gap. I will also discuss the cash economy. Lastly, I will cover issues the Internal Revenue Service (IRS) faces in achieving a balance between its specific enforcement initiatives and protecting taxpayer rights, as well as maintaining and improving customer service.

In my opinion, the importance of these issues cannot be overstated. The nation's ability to provide for the general welfare and protect its citizens is based on the ability to raise revenue through taxes. For our government to perform effectively, it must ensure that the taxes owed are timely paid. Because the tax gap poses such a significant threat to the integrity of our voluntary tax system, one of my top priorities for TIGTA is to identify opportunities for improvements to IRS tax compliance initiatives.

Before I discuss the scope, size, and nature of the tax gap problem, I would like to provide a brief historical perspective of the tax gap, identifying some key points of reference in the evolution of this discussion. In testimony before this committee in March 1982, then IRS Commissioner Roscoe Egger stated, "The tax gap has been a problem for years, but recently the dollars involved have reached alarming levels."¹ He further declared that the total legal sector tax gap had risen from \$29 billion in 1973 to \$87 billion in 1981 (in 2001 dollars, these figures indicate a rise from \$115.6 billion in 1973 to \$169.4 billion in 1981). Although these are significant figures, they are dwarfed by the latest IRS tax gap estimate of between \$312 and \$353 billion for tax year (TY) 2001. When Commissioner Egger testified, he described the various components of the tax gap, some of which are still problematic in terms of compliance, including:

- Farm and Non-Farm Businesses;
- Partnerships and Electing Small Business Corporations;
- Nonfilers; and,
- Corporations.

A few years after Commissioner Egger's testimony, the Government Accountability Office² (GAO) issued a report identifying the IRS estimate for individual unreported income as the largest single component of the tax gap at \$48.3 million in 1987.³ Unreported income by sole proprietorships made up the

¹ *Hearings on the Compliance Tax Gap Before the Subcomm. on Oversight of the Internal Revenue Service Comm. on Finance, 97th Cong. (1982)* (statement of Roscoe L. Egger, Jr., Commissioner of the Internal Revenue).

² Then known as the General Accounting Office. See GAO Human Capital Reform Act of 2004, Pub. L. No. 108-271, § 8, 118 Stat. 811, 814 (2004).

³ GENERAL ACCOUNTING OFFICE, PUB. NO. GAO/GGD-88-66BR, TAX ADMINISTRATION: IRS' TAX GAP STUDIES (1988).

largest component of that figure, at 34 percent. In 1994, the GAO issued another tax gap report indicating that although many corrective actions were taken, a cohesive strategy was needed to address compliance issues.⁴ This report indicated that noncompliance threatened our tax system. The GAO cited declining audit rates, problems with modernizing IRS systems, and issues with data used to measure compliance as significant concerns facing the IRS. Additionally, GAO identified actions the Congress could take to provide the IRS with more compliance tools. More than a decade later, these same concerns still confront tax administration.

The following year, in 1995, GAO reported on a tax gap symposium that was held to explore innovative yet practical means for increasing taxpayer compliance by bringing together experts in this field.⁵ The impact of tax law complexity on voluntary compliance was a key issue discussed at the forum. Additionally, the forum discussed proposals to reduce levels of underreporting by increasing the visibility of income and tax withholding. Some of these proposals are still viable, and will be included in my discussion on recommendations to close the tax gap.

Over the decades the tax gap has been an issue, the Congress has taken action to address various components of the tax gap. For example, the Tax Equity and Fiscal Responsibility Act of 1982⁶ was enacted, in part, to address tax shelters involving partnerships. The Deficit Reduction Act of 1984⁷ contained provisions to combat corporate tax abuses. The Tax Reform Act of 1986⁸ extensively revised the tax code to eliminate tax abuses and create a more equitable tax system.

I have provided this historical perspective to emphasize the fact that the tax gap is not new. Making the difficult changes necessary to address the tax gap is something that the IRS, the Department of the Treasury, and Members of Congress will have to continue to wrestle with to help remedy this problem.

My remaining testimony will focus on the scope, size, and nature of the tax gap, the resulting implications of the growing cash economy on the tax gap, recommendations for closing the tax gap, and finding the appropriate balance among enforcement, taxpayer rights, and customer service.

⁴ GENERAL ACCOUNTING OFFICE, PUB. NO. GAO/GGD-94-123, TAX GAP: MANY ACTIONS TAKEN, BUT A COHESIVE COMPLIANCE STRATEGY NEEDED (1994).

⁵ GENERAL ACCOUNTING OFFICE, PUB. NO. GAO/GGD-95-157, REDUCING THE TAX GAP: RESULTS OF A GAO-SPONSORED SYMPOSIUM (1995).

⁶ The Tax Equity and Fiscal Responsibility Act of 1982, Pub. L. No. 97-248, 96 Stat. 324 (1982) (codified in scattered sections of 26 U.S.C.).

⁷ The Deficit Reduction Act of 1984, Pub. L. No. 98-369, 98 Stat. 494 (1984) (codified as amended in scattered sections of 26 U.S.C.).

⁸ The Tax Reform Act of 1986, Pub. L. No. 99-514, 100 Stat. 2085 (1986) (codified in scattered sections of 26 U.S.C.).

The Tax Gap: Its Scope, Size, and Nature

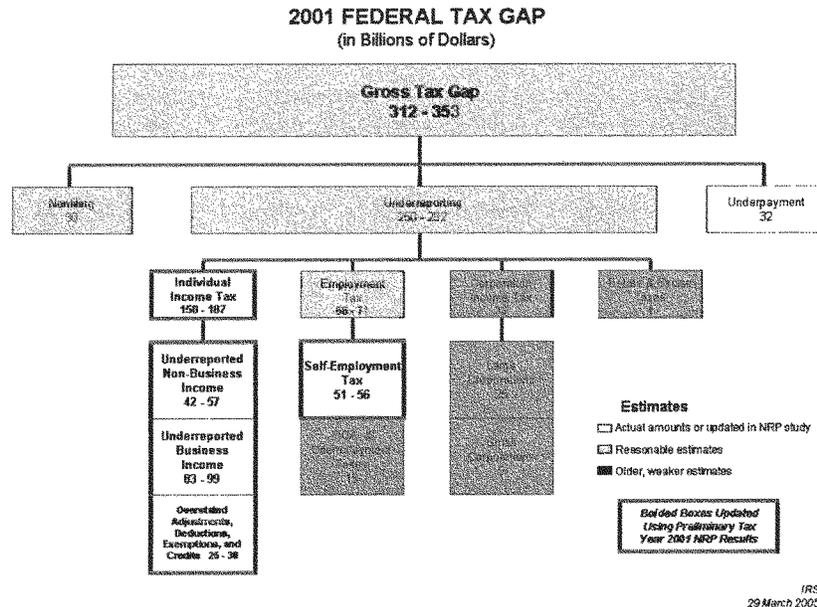
The IRS defines the tax gap as “the difference between what taxpayers are supposed to pay and what is actually paid.”⁹ The IRS further describes the tax gap as having three primary components — unfiled tax returns, taxes associated with underreported income on filed returns, and underpaid taxes on filed returns.¹⁰ Within the underreported income component, the IRS has further delineated specific categories of taxes, such as individual, corporate, employment, estate, and excise taxes. However, the IRS is not confident in the reliability of certain components of its tax gap estimate. Areas of uncertainty include portions of the underreported employment tax segment and the underreported corporate tax segment, because the underlying data is 15 years old or more and the IRS has low confidence in its original estimates. Thus, these figures are simply rough estimates of the tax gap problem.

The IRS developed the following chart which provides a good visual reference for the various components of the tax gap. Additionally, it indicates which segments of the tax gap estimate were recently updated based on new data.

⁹ *Hearings on Bridging the Tax Gap Before the Senate Comm. on Finance*, 108th Cong. (2004) (statement of Mark Everson, Commissioner of Internal Revenue).

¹⁰ This definition and the associated categories have evolved over time. IRS tax gap estimates in 1979 and 1983 included unpaid income taxes owed from illegal activities such as drug dealing and prostitution. That practice was discontinued in the 1988 estimate. Reasons given for excluding are 1) the magnitude of the illegal sector is extremely difficult to estimate; and 2) the interest of the government is not to derive revenue from these activities, but to eliminate the activities altogether. Earlier tax gap figures such as those for 1965 and 1976 only included underreporting. While figures for more recent years (1992, 1995, 1998 and 2001) are more comparable, they are essentially the same estimates adjusted for the growth in the economy. Thus, comparing the figures does not show real growth in the tax gap. Lastly, comparisons among years are not done in constant dollars, so any real growth in the tax gap cannot be determined through this IRS data.

Figure 1: Tax Gap



Source: IRS Tax Gap Facts and Figures

The recently updated estimates of the tax gap released March 29, 2005, and developed for TY 2001, estimated the annual gross tax gap¹¹ to be between \$312 and \$353 billion. The net tax gap, which is the portion of this amount that will not be collected after all IRS and taxpayer actions have been completed for a given TY, was estimated to be between \$257 and \$298 billion.¹² To provide some perspective on the size of this estimate, if collected, these dollars could fund the two largest segments of the Department of Defense budget for 2006 – military personnel and operations and maintenance.

The largest estimated component of the tax gap is the underreporting component, which for TY 2001 was estimated to be between \$250 and \$292 billion. Within that component, underreporting of individual income taxes was estimated to be between \$150 and \$187 billion, with business income estimated to be \$83 to \$99 billion of that total (about 27 percent of the total gross tax gap). The second largest segment of underreporting at

¹¹ The amount of tax that is imposed for a given tax year but is not paid voluntarily and timely.

¹² INTERNAL REVENUE SERVICE, TAX GAP FACTS AND FIGURES 3, available at http://www.irs.gov/pub/irs-utl/tax_gap_facts-figures.pdf (last visited Apr. 5, 2005).

\$66 to \$71 billion is the employment tax, which includes social security, medicare, and unemployment taxes. Self-employment tax, which is self-reported, is the largest component of that category at \$51 to \$56 billion (16 percent of the gross tax gap).

Thus, individuals with business income, including the self-employed, are estimated to have an underreporting tax gap of \$134 to \$155 billion in TY 2001. This figure is over 40 percent of the estimated gross tax gap, and more than half of the estimated total underreported portion of the tax gap. The cash economy is a subsection of this segment and is discussed later in my testimony.

Better Data Are Needed to Measure the Tax Gap and the Effectiveness of Enforcement Actions

Approximately every three years from 1963 to 1988, the IRS conducted studies to measure tax compliance.¹³ Estimates of the tax gap were first developed from these studies in 1973.¹⁴ However, the program used to conduct these studies, called the Taxpayer Compliance Measurement Program (TCMP), was shelved in 1991 due to concerns about its burden on compliant taxpayers.¹⁵ When the IRS unveiled an expanded approach to measure compliance in 1994, the Congress decided to eliminate all funding for this project because of concerns about its intrusiveness. More recently, the IRS initiated a new program to measure compliance, and its results were used to produce the recent update of the individual tax gap figures.¹⁶

Although better data will help the IRS identify noncompliant segments of the population, broader strategies and better research are also needed to determine what actions are most effective in addressing noncompliance. The Taxpayer Advocate's 2004 *Annual Report to Congress* effectively lays out some of the complexities involved in structuring an enforcement program to address the tax gap, and the efforts the IRS still needs to make to analyze the effectiveness of various compliance techniques.¹⁷ Similarly, in two recent audit reports, TIGTA identified examination programs that the IRS implemented nationwide before

¹³ KIM M. BLOOMQUIST ET AL., INTERNAL REVENUE SERVICE, TAX NONCOMPLIANCE IN THE UNITED STATES: MEASUREMENT AND RECENT ENFORCEMENT INITIATIVES (2004).

¹⁴ See GENERAL ACCOUNTING OFFICE, *supra* note 5.

¹⁵ The TCMP was considered by the IRS and by external stakeholders to be burdensome to taxpayers because of the intensive "line-by-line" nature of its audits. See KIM M. BLOOMQUIST ET AL., *supra* note 14; GENERAL ACCOUNTING OFFICE, PUB. NO. GAO/GGD-95-59, TAX ADMINISTRATION: ESTIMATES OF THE TAX GAP FOR SERVICE PROVIDERS (1994).

¹⁶ See discussion *infra* p. 11.

¹⁷ NATIONAL TAXPAYER ADVOCATE, INTERNAL REVENUE SERVICE, 2004 ANNUAL REPORT TO CONGRESS (2004).

obtaining results on their possible effectiveness or before implementing an effective strategy to measure the results of the program.¹⁸

The IRS must continue to obtain accurate measures of the various components of the tax gap and the effectiveness of actions taken to reduce it. This information is critical to the IRS for strategic direction, budgeting and staff allocation. The Department of the Treasury also needs these measures for tax policy purposes. Additionally, the Congress needs this information to develop legislation that improves the effectiveness of the tax system.

The Cash Economy: A Growing Problem

The cash economy and the resulting underreporting of income for tax purposes have been a significant portion of the tax gap for many years.¹⁹ The cash economy, also known as the underground economy, consists of activities which may be both productive and legal, but which are deliberately concealed from public authorities for a variety of reasons, such as to avoid the payment of taxes or to avoid meeting certain standards or administrative requirements.²⁰ As described earlier, underreporting of individual business income and self-employment taxes on filed returns comprises nearly half of the 2001 estimated tax gap. Taking action to improve compliance in this area is critical to making strides in addressing the tax gap.

The difference in compliance rates between individual wage-earning taxpayers and those operating businesses is striking. The IRS has estimated that individuals whose wages are subject to withholding report 99 percent of their wages for tax purposes.²¹ In contrast, self-employed individuals who formally operate non-farm businesses²² are estimated to report only about 68 percent of their income for tax purposes. Even more alarming, self-employed individuals

¹⁸ TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION, REF. NO. 2005-30-012, THE HIGH INCOME TAXPAYER STRATEGY WAS EFFECTIVELY IMPLEMENTED, ALTHOUGH ITS SUCCESS STILL NEEDS TO BE DETERMINED (2004); TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION, REF. NO. 2005-30-029, THE LIMITED ISSUE FOCUSED EXAMINATION PROCESS HAS MERIT, BUT ITS USE AND PRODUCTIVITY ARE CONCERNS (2005).

¹⁹ GENERAL ACCOUNTING OFFICE, PUB. NO. GAO/GGD-82-34, FURTHER RESEARCH INTO NONCOMPLIANCE IS NEEDED TO REDUCE GROWING TAX LOSSES (1982); GENERAL ACCOUNTING OFFICE, PUB. NO. GAO/GGD-79-69, WHO'S NOT FILING INCOME TAX RETURNS? THE IRS NEEDS BETTER WAYS TO FIND THEM AND COLLECT THEIR TAXES (1979).

²⁰ From the 1993 System of National Accounts (SNA93), published jointly by the United Nations, the Commission of the European Communities, the International Monetary Fund (IMF), the Organisation for Economic Co-operation and Development (OECD), and the World Bank. These principles comprise a conceptual framework that sets the international statistical standard for the measurement of the market economy. SNA93 uses the term "underground economy."

²¹ See GENERAL ACCOUNTING OFFICE, *supra* note 15; INTERNAL REVENUE SERVICE, PUB. 1415, FEDERAL TAX COMPLIANCE RESEARCH: INDIVIDUAL INCOME TAX GAP ESTIMATES FOR 1985, 1988, AND 1992, (Rev. 1996).

²² Formal, non-farm businesses are considered to be those that are typically not operated on a cash basis and that pay expenses such as taxes, rent, or insurance.

operating businesses on a cash basis²³ report just 19 percent of their income to the IRS.

Estimates indicate that the cash economy is growing.²⁴ A recent article in *Barron's* on the underground economy in this country estimated that the income in this segment of the population is currently about 9 percent of the gross domestic product and will soon surpass \$1 trillion.²⁵ The article indicated that growth of this segment of the economy has been spurred by corporate downsizing, which has forced many employees to become independent contractors, and by the increasing size of the nation's population of undocumented immigrants.

An April 2002 Economic Roundtable briefing paper entitled "Workers Without Rights" explored the informal economy in Los Angeles.²⁶ Even using conservative estimates, the study stated that unpaid payroll and insurance benefits exceeded \$1.1 billion. The briefing paper estimated the size of the informal economy to be between 9 and 29 percent of the employment in Los Angeles County. The informal economy included employment in a variety of manufacturing industries, agriculture, construction and others. Thus, the informal economy operates in many aspects of the economy and obtains a competitive advantage by paying low wages and not paying employment taxes.

Although the noncompliance rate in the cash economy is high, the percentage of examinations of self-employed taxpayers is still low. The figure below indicates that in the past 9 years, this percentage dropped from 3.60 percent in 1996 to a low of 1.55 percent in 2000. In the last 4 years, however, the percentage has risen to 2.13 percent.

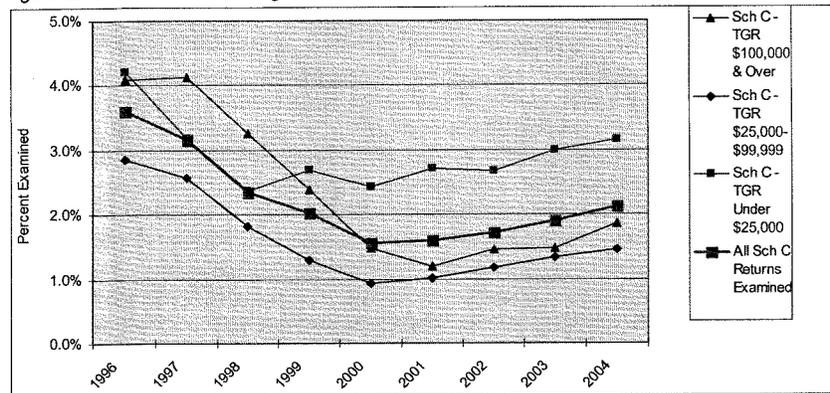
²³ These individuals provide products or services through informal arrangements which typically involve cash transactions or "off-the-books" accounting practice. This group includes child care providers, street vendors, and moonlighting professionals.

²⁴ KIM BLOOMQUIST, INTERNAL REVENUE SERVICE, TRENDS AS CHANGES IN VARIANCE: THE CASE OF TAX NONCOMPLIANCE (2003).

²⁵ Jim McTague, *Underground Economy*, BARRON'S, Jan. 3, 2005.

²⁶ The paper defined the informal economy as that which produces legal goods and services that are not effectively regulated. Such activities can give rise to abuses by employers who fail to respect basic labor, safety, immigration, and tax laws, leaving workers without rights.

Figure 2. Examination Coverage of Forms 1040 With Business Income²⁷



Source: TIGTA Analysis of IRS Data Book Information.

Although examinations of these returns should increase compliance, the visibility of the income received by these self-employed individuals needs to be raised.

Recommendations for Closing the Tax Gap

For years, recommendations have been circulating regarding how to address closing the tax gap. Some of the recommendations made 10 to 15 years ago are still relevant today. In this section of my testimony, I will focus on the following recommendations that TIGTA, other oversight groups, and interested stakeholders have made to address the tax gap:

- Reduce the Complexity of the Tax Code;
- Gather Better Compliance Data;
- Institute Withholding on Non-employee Compensation;
- Improve Compliance with Estimated Tax Payments;
- Establish Document Matching to Verify Business Income;
- Address Increasing Levels of Late Filed Returns;
- Increase Resources in the IRS Enforcement Functions; and,
- Address Delays in Systems Modernization.

Reduce the Complexity of the Tax Code

As the Taxpayer Advocate stated in the 2004 *Annual Report to Congress*, the most serious problem facing taxpayers and the IRS is the complexity of the Internal Revenue Code.²⁸ Nearly all taxpayers are now affected by these

²⁷ "TGR" is Total Gross Receipts, and "Sch C" is Schedule C, the tax return schedule used by the self-employed to report a profit or loss from business.

²⁸ See NATIONAL TAXPAYER ADVOCATE, *supra* note 17.

complexities—from a single mother struggling to determine her eligibility for the Earned Income Tax Credit (EITC) to the dual-income family with four children having to recalculate their taxes to identify any Alternative Minimum Tax liability to the small business owner left wondering which schedule to use to depreciate his assets. Without meaningful tax code simplification, it is likely that the complexities of the current tax code will continue to contribute to the tax gap.

In 2001, the Joint Committee on Taxation conducted a study on the complexity of the tax law, and found that at that time, the tax code consisted of nearly 1.4 million words. There were 693 sections of the code applicable to individuals, 1,501 sections applicable to businesses, and 445 sections applicable to tax exempt organizations, employee plans, and governments. At that time, a taxpayer filing an individual income tax return (Form 1040) could be faced with a 79 line return, 144 pages of instructions, 11 schedules totaling 443 lines (including instructions), 19 separate worksheets embedded in the instructions, and the possibility of having to file numerous other forms.²⁹ For the 2005 tax filing season, the IRS estimates it should take, on average, over 19 hours to complete and file a 2004 Form 1040 and the associated Schedule A.

The EITC is an example of a program that is so complicated, it is difficult for both taxpayers and the IRS to consistently and accurately determine eligibility. The taxpayers eligible for this program are those who can least afford to obtain professional tax assistance to overcome this complexity. TIGTA recently completed a follow-up audit on the EITC recertification program which was designed to keep ineligible individuals from receiving the EITC until they prove their eligibility to the IRS.³⁰ TIGTA found that during a two-year period the IRS gave over \$100 million in EITC to taxpayers who had not proven their eligibility. Conversely, during a three-year period, over \$20 million was improperly denied to individuals who were entitled to these funds.

The complexities of the tax law affect the ability of the IRS to administer the nation's tax system. The IRS' efforts to provide assistance to taxpayers are hampered because of these complexities. TIGTA has performed numerous audits of the accuracy of IRS responses to taxpayer questions by visiting Taxpayer Assistance Centers (TAC) in person, calling the IRS toll-free telephone lines, and accessing the IRS internet site.

Our most recent audit of the accuracy of responses provided to tax law questions received via the toll-free telephone lines during the 2004 Filing Season found that 62 percent of the answers given were correct.³¹ The IRS conducted its own tests

²⁹ STAFF OF THE JOINT COMMITTEE ON TAXATION, 107TH CONG., STUDY OF THE OVERALL STATE OF THE FEDERAL TAX SYSTEM AND RECOMMENDATIONS FOR SIMPLIFICATION, PURSUANT TO SECTION 8022(3)(B) OF THE INTERNAL REVENUE CODE OF 1986 (Comm. Print 2001).

³⁰ TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION, REF. NO. 2005-40-039, THE EARNED INCOME CREDIT RECERTIFICATION PROGRAM CONTINUES TO EXPERIENCE PROBLEMS (2005).

³¹ TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION, REF. NO. 2004-40-150, ADDITIONAL EFFORT ANSWERING TAX LAW QUESTIONS WOULD IMPROVE CUSTOMER SERVICE (2004).

and found an accuracy rate of 74 percent for the same time period. Both of these figures were well below the IRS' accuracy goal of 85 percent for this service. Tax law complexity contributes to the IRS' challenges in trying to reach these accuracy goals.

The Volunteer Income Tax Assistance (VITA) Program, which assists underserved segments of low-income, elderly, disabled, and limited English proficient taxpayers, is also adversely affected by the complex tax law. In calendar year (CY) 2003, the VITA program assisted nearly 850,000 taxpayers³² at 3,791 sites throughout the country. In 2004, TIGTA conducted a review in which auditors visited some VITA sites to have tax returns prepared.³³ All of the 35 returns prepared at the VITA sites were incorrectly prepared. If filed, those returns would have resulted in \$26,007 in incorrect refunds and \$4,546 in refund entitlements that would not have been received. Use of return preparation tools and adequate training are key to accurate return preparation at VITA sites. TIGTA is currently doing a follow-up review of tax return preparation at VITA sites to determine whether accuracy rates have improved.

At the other end of the economic spectrum, white collar professionals and executives have used the complexities of the tax code to devise intricate schemes to illegally shelter income from taxation. Widely publicized corporate scandals over the last several years indicate that abusive tax shelters may be more common than once thought. The IRS has increased its oversight of tax shelters with some significant success stories. The indictment and recent arrest of Walter Anderson is a reminder to all taxpayers that those in upper income brackets have the same responsibility as other taxpayers to pay what they owe.³⁴

However, the complexities of the tax law make the job of pursuing abusive tax avoidance schemes even more challenging and costly. Recent IRS statistics for revenue agents indicate that time spent per tax return on examinations has increased in the last 2 years.³⁵ For example, in fiscal year (FY) 2004, hours spent per return on examinations were up 23 percent for individual tax returns and 19 percent for corporate tax returns over FY 2003 figures. The increase in time spent on examinations could be partially attributed to the types of cases that were being worked. The Small Business/Self-Employed Division has designated several categories as high-priority, including:

³² This figure includes nonmilitary and military VITA-prepared tax returns. For TY 2002, the IRS was unable to distinguish between returns prepared by the military and nonmilitary VITA sites. Nonmilitary sites account for 92 percent of all VITA sites.

³³ TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION, REF. NO. 2004-40-154, IMPROVEMENTS ARE NEEDED TO ENSURE TAX RETURNS ARE PREPARED CORRECTLY AT INTERNAL REVENUE SERVICE VOLUNTEER INCOME TAX ASSISTANCE SITES (2004).

³⁴ In late February, Walter Anderson was arrested for corruptly obstructing, impeding, or impairing the due administration of the Internal Revenue laws, tax evasion, and fraud in the first degree for failing to report hundreds of millions of dollars in income for tax purposes.

³⁵ TIGTA analysis of IRS Data Book Information.

- High-risk, high-income taxpayers and nonfilers;
- Abusive schemes; and,
- Unreported income.

These types of cases require in-depth probing to identify unreported income and to determine reporting compliance.

Various proposals have been made to dramatically alter America's tax system. Others have made recommendations for less sweeping but more targeted changes. As a first step in reforming the code, the President has created a bipartisan panel to advise the Secretary of the Treasury on options to reform the tax code. Whatever proposal is chosen, simplifying the tax code could have a significant impact on reducing the tax gap.

Gather Better Compliance Data

The IRS has initiated a new program, the National Research Program (NRP), to measure taxpayers' voluntary compliance, to better approximate the tax gap, and to develop updated formulas to select noncompliant returns for examination. The first phase of this program addresses reporting compliance for individual taxpayers, and data from this phase were used to produce the recently updated estimates of this portion of the tax gap. These initial findings should enable the IRS to develop and implement strategies to address areas of noncompliance among individual taxpayers.

The next phase of the NRP has begun and it focuses on business taxpayers. It is critical for the IRS to efficiently complete these studies so its limited enforcement resources can be focused on the most serious areas of noncompliance.³⁶

Institute Withholding on Non-employee Compensation

As stated earlier, the segment of the tax gap attributable to underreporting among individuals with business income each year is over \$130 billion, or over 40 percent of the total tax gap. Over 20 years ago, GAO recommended that the Congress consider requiring withholding and improving information returns reporting for independent contractors. More recently, TIGTA recommended that the IRS initiate a proposal for a legislative change to mandate withholding on non-employee compensation payments, such as those provided to independent

³⁶ TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION., REF. NO. 2004-30-044, ADDITIONAL EFFORTS COULD FURTHER IMPROVE THE EXECUTION OF THE NATIONAL RESEARCH PROGRAM (2004).

contractors.³⁷ TIGTA maintains that implementing a provision in this area could reduce the tax gap by billions of dollars. The IRS has agreed to consider such a proposal. The Taxpayer Advocate's 2003 *Annual Report to Congress* also made this recommendation.³⁸

In a recent Joint Committee on Taxation report, the proposal is made to implement withholding on payments from government entities.³⁹ The proposal recommends withholding three percent of payments to businesses and individuals (other than employees) providing goods and services to government entities. TIGTA agrees that this proposal may be a good first step as it provides an opportunity to test the feasibility and burden associated with such withholding.

In addition to implementing withholding on non-employee compensation, other actions should be taken to improve compliance among independent contractors.⁴⁰ For example, improvement is needed to address inaccurate reporting of Taxpayer Identification Numbers (TIN) for independent contractors. For TYs 1995 through 1998, the IRS received about 9.6 million statements for Recipients of Miscellaneous Income (Forms 1099-MISC), reporting approximately \$204 billion in non-employee compensation that either did not contain a TIN or had a TIN that did not match IRS records. This problem could be addressed with legislation mandating that the payer and payee verify the TIN at the beginning of their relationship. Additionally, withholding could be mandated for independent contractors who fail to furnish a TIN. Implementing mandated withholding for this segment of independent contractors would result in an estimated \$2.2 billion in increased revenue to the IRS each year.

Improve Compliance with Estimated Tax Payments

Because individual taxpayers with businesses are not subject to withholding, estimated tax is the method used to pay taxes on non-wage income on a quarterly basis.⁴¹ About 12 million taxpayers made estimated tax payments totaling \$183 billion for TY 2001. However, there are significant levels of taxpayer noncompliance with estimated tax payment requirements. For each tax year from 1995 through 2000, between 5.7 million and 6.8 million individual taxpayers were assessed penalties for making insufficient or late estimated tax

³⁷ TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION, REF. NO. 2004-30-040, WHILE PROGRESS TOWARD EARLIER INTERVENTION WITH DELINQUENT TAXPAYERS HAS BEEN MADE, ACTION IS NEEDED TO PREVENT NONCOMPLIANCE WITH ESTIMATED TAX PAYMENT REQUIREMENTS (2004); TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION, REF. NO. 2001-30-132, SIGNIFICANT TAX REVENUE MAY BE LOST DUE TO INACCURATE REPORTING OF TAXPAYER IDENTIFICATION NUMBERS FOR INDEPENDENT CONTRACTORS (2001).

³⁸ NATIONAL TAXPAYER ADVOCATE, INTERNAL REVENUE SERVICE, 2003 ANNUAL REPORT TO CONGRESS (2003).

³⁹ STAFF OF THE JOINT COMMITTEE ON TAXATION, 109TH CONG., OPTIONS TO IMPROVE TAX COMPLIANCE AND REFORM TAX EXPENDITURES (Comm. Print 2005).

⁴⁰ See TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION, *supra* note 37.

⁴¹ See TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION, *supra* note 37.

payments. Many of these taxpayers also filed tax returns without paying the associated taxes, and this resulted in the IRS having to take costly collection actions.

To address estimated tax payment noncompliance, TIGTA recommended the IRS explore legislative proposals to require estimated tax payments to be made on a monthly basis. Additionally, the IRS should change how the estimated tax penalty rate is determined to ensure it serves as a more effective deterrent to noncompliance, and should issue a mid-year reminder notice to certain taxpayers. Implementing these recommendations would result in increased compliance, reduced penalty and interest assessments for certain taxpayers, and reduced collection costs to the IRS. The IRS disagreed with our recommendations, indicating that monthly payments would increase the burden on taxpayers,⁴² and that it had previously made a different proposal to change the estimated tax penalty rate.⁴³

Establish Document Matching to Verify Business Income

TIGTA has also identified improvements that should be made to improve compliance in business tax filing.⁴⁴ The GAO reported that more than 60 percent of U.S.-controlled corporations and more than 70 percent of foreign-controlled corporations did not report tax liabilities from 1996 through 2000.⁴⁵ Although individual wage earners who receive a Wage and Tax Statement (Form W-2) have their wages verified through a matching program, a similar comprehensive matching program for business documents received by the IRS does not exist. TIGTA recommended that the IRS evaluate all types of business documents it receives to determine if this information can be used to improve business compliance. Additionally, based on this evaluation, the IRS should consider the feasibility of legislative changes to require that additional information returns be issued for corporations so that the IRS has more complete information for these businesses.

TIGTA has also reported on issues related to partnerships and foreign partners, and has recommended automating a system to crosscheck withholding claims

⁴² TIGTA considered the burden issue, but indicated that monthly payment intervals are an established and common business practice in the private sector. Most Americans are already used to making monthly payments on their home mortgages, rent, car loans, credit cards, and utilities.

⁴³ The IRS developed a legislative proposal recommending the Congress raise the minimum underpayment amount on which penalties are assessed for failure to make estimated tax payments. It also proposed to change the rate at which the estimated penalty is determined.

⁴⁴ TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION, REF. NO. 2002-30-185, THE IRS SHOULD EVALUATE THE FEASIBILITY OF USING AVAILABLE DOCUMENTS TO VERIFY INFORMATION REPORTED ON BUSINESS TAX RETURNS (2002).

⁴⁵ GENERAL ACCOUNTING OFFICE, PUB. NO. GAO-04-358, TAX ADMINISTRATION: COMPARISON OF THE REPORTED TAX LIABILITIES OF FOREIGN- AND U.S.-CONTROLLED CORPORATIONS, 1996-2000 (2004).

against available credits prior to issuing refunds to foreign partners.⁴⁶ Implementing a comprehensive matching program to identify noncompliance among businesses would be difficult and could require some legislative changes, but it could identify significant pockets of noncompliance among business taxpayers.

Address Increasing Levels of Late Filed Returns

Taxpayer payment compliance means that the amounts owed are paid on time. However, for decades the IRS has allowed taxpayers with extended return filing due dates to send in late payments and pay only interest and small failure to pay penalties. Obtaining an extension of time to file a tax return does not extend the due date for tax payments, and failure to pay penalties are typically assessed when payments are made late, even if the taxpayer has received an extension.

In 1993, IRS management eliminated the requirement to pay all taxes by the payment due date in order to qualify for an extension of time to file. Once an extension has been granted, the taxpayer is exempt from a 5 percent per month Delinquency Penalty⁴⁷ for the period of the extension. TIGTA evaluated the impact of these rules on individual and corporate taxpayers and found that 88 percent of untimely tax payments for returns filed after April 15 were attributable to extended due date taxpayers.⁴⁸ Corporations are required to pay estimates of their unpaid taxes to be granted extensions. However, TIGTA found corporate estimates to be highly flawed; in CY 1999 alone, approximately 168,000 corporations received an extension, yet failed to pay \$1.8 billion in taxes by the normal tax return date.

TIGTA projected that the tax gap from extension-related individual income tax underpayments would amount to approximately \$46.3 billion in CY 2008, of which approximately \$29.8 billion would not be paid until after the end of FY 2008. Due to the more complex nature of corporate taxes, similar figures were not available for corporations, although TIGTA estimated that by TY 2008, approximately \$768 million in additional corporate taxes would be timely paid if TIGTA's recommendations were adopted. The IRS is currently studying TIGTA's recommendations.

⁴⁶ TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION, REF. NO. 2001-30-084, STRONGER ACTIONS ARE NEEDED TO ENSURE PARTNERSHIPS WITHHOLD AND PAY MILLIONS OF DOLLARS IN TAXES ON CERTAIN INCOME OF FOREIGN PARTNERS (2001).

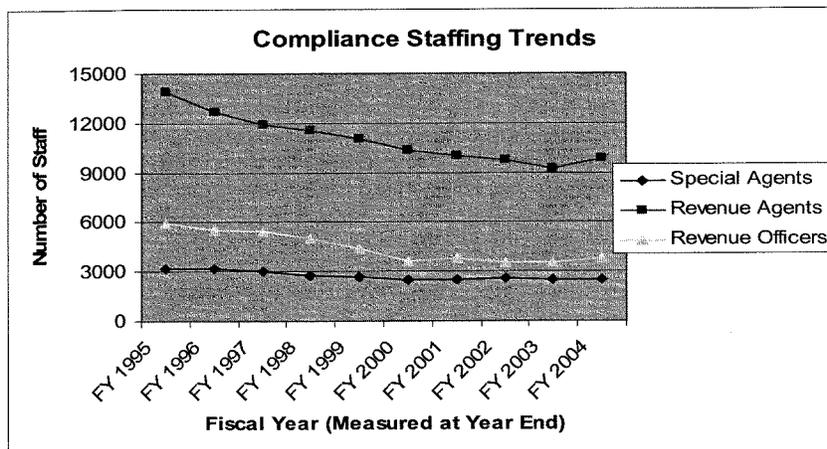
⁴⁷ The Delinquency Penalty is also known as the Failure-to-File Penalty, although it only applies to taxpayers who both file late and fail to pay all taxes by the tax payment deadline.

⁴⁸ TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION, REF. NO. 2003-30-132, THE REGULATIONS FOR GRANTING EXTENSIONS OF TIME TO FILE ARE DELAYING THE RECEIPT OF BILLIONS OF TAX DOLLARS AND CREATING SUBSTANTIAL BURDEN FOR COMPLIANT TAXPAYERS (2003) and TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION, REF. NO. 2004-30-106, CHANGES TO THE REGULATIONS FOR GRANTING EXTENSIONS OF TIME TO FILE CORPORATE RETURNS ARE NEEDED TO ALLEVIATE SIGNIFICANT PROBLEMS WITH ADMINISTERING THE TAX LAWS (2004).

Increase Resources in the IRS Enforcement Functions

Staffing in the IRS enforcement areas has decreased significantly in the last few years.⁴⁹ However, in 2004, the IRS received additional funding and was able to increase its enforcement staffing slightly over the prior year. In the Examination function, the number of Revenue Agents decreased from 13,857 in FY 1995 to 9,787 in FY 2004. In the Collection function, the number of Revenue Officers decreased from 5,908 in FY 1995 to 3,789 in FY 2004. These decreases in staffing occurred during a period in which the number of tax returns filed increased over 10 percent.

Figure 3. Compliance Staffing—Field Special Agents, and Revenue Agents and Revenue Officers Working Compliance Cases — FY 1995-2004



Sources: Criminal Investigation Business Performance Review, Examination Table 37, Collection Report 5000-23.

One effect of the lack of resources in the Collection function is that the Queue,⁵⁰ has increased significantly since FY 1996. In FY 1996, there were 317,865 balance due accounts worth \$2.96 billion in the Queue. In FY 2004, these figures had increased to 623,477 balance due accounts worth \$21 billion. Additionally, the number of unfiled tax return accounts in the Queue increased from 326,118 in FY 1996 to 838,090 in FY 2004.

⁴⁹ TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION, REF. NO. 2005-30-055, TRENDS IN COMPLIANCE ACTIVITIES THROUGH FISCAL YEAR 2004 (2005).

⁵⁰ An automated holding file for unassigned inventory of lower priority delinquent cases that the Collection function does not have enough resources to immediately assign for contact.

The number of balance due accounts “shelved”, or removed from the Queue altogether because of lower priority, has also increased significantly. In FY 1996, less than 8,000 of these balance due accounts were shelved, but in FY 2004, over a million of these accounts were removed from inventory. From FY 2001 to FY 2004, approximately 5.4 million accounts with balance due amounts totaling more than \$22.9 billion were removed from Collection function inventory and shelved. Additionally, in FY 2004 alone, over 2 million accounts with unfiled returns were shelved.

If increased funds for enforcement are provided to the IRS in upcoming budgets, the resource issues in the enforcement functions will be addressed to some degree. In addition, use of contractors should allow the IRS to collect more outstanding taxes. The IRS will have to be vigilant in overseeing these contractors to ensure that abuses do not occur. Past experiences with lockbox thefts and insufficient contractor oversight provide valuable lessons to reduce the likelihood of similar issues occurring when contracting out collection of tax debt.⁵¹

Address Delays in Systems Modernization

In 1993, GAO stated:

Dramatic improvements in IRS’ ability to collect delinquent taxes and reduce the tax gap, for example, will only come about, in our opinion, through dramatic changes in the way IRS does business. Central to such change will be the capability of IRS employees to obtain on-line access to accurate, up-to-date information whenever they need it—the ultimate goal of TSM [Tax Systems Modernization].⁵²

Modernizing IRS computer systems and providing more tools to address compliance are still key to giving employees the ability to effectively and efficiently address the tax gap.

Although cost increases and schedule delays have plagued the new modernization effort, now called Business Systems Modernization, the IRS has

⁵¹ TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION, REF. NO. 2002-30-055, FEDERAL REQUIREMENTS NEED STRENGTHENING AT LOCKBOX BANKS TO BETTER PROTECT TAXPAYER PAYMENTS AND SAFEGUARD TAXPAYER INFORMATION (2002); TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION, INSUFFICIENT CONTRACTOR OVERSIGHT PUT DATA AND EQUIPMENT AT RISK (2004).

⁵² *Hearings on the Status of Tax Systems Modernization, Tax Delinquencies, and the Tax Gap Before the Subcomm. on Treasury, Postal Service and General Government of the House Comm. on Appropriations*, 103rd Cong. 16 (1993) (statement of Jennie S. Stathis, General Accounting Office).

begun to implement some of the initial phases of key systems.⁵³ One such system, the Customer Account Data Engine (CADE),⁵⁴ when completed will replace the IRS' current Master File⁵⁵ and is a cornerstone in the modernization effort. In 2004, the first phase of CADE became operational and began processing tax returns for a small segment of the population.

One of the modernization systems that was proposed to address taxpayer compliance was the Filing and Payment Compliance (F&PC) project.⁵⁶ During FY 2005 and 2006, the IRS plans the first two subreleases of the F&PC project, which will provide the IRS with the ability to automatically provide limited tax information from its systems to a small number of private debt collection agencies.⁵⁷ A third subrelease, scheduled for FY 2007, will be required to provide full functionality to the private debt collection segment of the F&PC project.

Balance Between Enforcement, Taxpayer Rights, and Customer Service

Reaching the appropriate balance among enforcement, taxpayer rights, and customer service is a key issue to the tax gap discussion, but it is not easy to achieve. The IRS has been criticized for its swings between focusing on enforcement to the detriment of customer service, or vice versa. Commissioner Everson's guiding principle for the IRS, *Service + Enforcement = Compliance*, relates his goal for striking the right balance necessary to achieve compliance and address the tax gap.⁵⁸ TIGTA agrees that enhancing enforcement while improving customer service is the proper direction for the IRS.

⁵³ TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION, REF. NO. 2004-20-107, ANNUAL ASSESSMENT OF THE BUSINESS SYSTEMS MODERNIZATION PROGRAM (2004).

⁵⁴ The CADE is the foundation for managing taxpayer accounts in the IRS' modernization plan. When completed, it will consist of databases and related applications that will replace the IRS' existing Master File processing systems and will include applications for daily posting, settlement, maintenance, refund processing, and issue detection for taxpayer tax account and return data. The CADE databases and related applications will also enable the development of subsequent modernized systems that will improve customer service and compliance and allow the on-line posting and updating of taxpayer account and return data. The portion of the CADE related to individual tax accounts will be incrementally deployed in five releases, each related to a specific taxpayer segment, over several years. At the conclusion of Release 5, the CADE will have replaced the Individual Master File, and the IRS will conduct business much differently than it does today.

⁵⁵ The IRS database that stores various types of taxpayer account information. This database includes individual, business, and employee plans and exempt organizations data.

⁵⁶ The F&PC was intended to provide support for detecting, scoring, and working nonfiler cases (filing compliance) and delinquency cases (payment compliance). The IRS completed the planning phases for the Filing and Payment Compliance project in 2003, but suspended the project due to concerns with costs. In FY 2004, the portion of this project designed to support private debt collection was restarted.

⁵⁷ IRS Taxpayer Relationship Management Executive Steering Committee meetings for January and February 2005.

⁵⁸ INTERNAL REVENUE SERVICE, PUB. 3744, IRS STRATEGIC PLAN 2005-2009 (Rev. 2004).

To ensure taxpayer rights are protected, each year TIGTA performs several audits to evaluate the impact of IRS' enforcement actions and related activities on taxpayers, in accordance with the IRS Restructuring and Reform Act of 1998 (RRA 98).⁵⁹ Generally, the IRS is in compliance with the provisions of RRA 98 that TIGTA has reviewed. For example, the law's restrictions on the use of enforcement statistics to evaluate employees continue to be followed, and IRS employees typically follow the legal requirements on liens and levies.⁶⁰ Our audit this past year on compliance with seizure provisions did find an increase in errors, such as required forms not being sent to taxpayers or expenses of the sale not properly charged to taxpayers' account, but these discrepancies did not result in any adverse impact on taxpayers.⁶¹

Since the passage of RRA 98, the IRS' focus on customer service has led to many improvements. Individual taxpayer satisfaction rates with IRS have increased since the law's passage, rising from 51 to 64 percent between 1999 and 2004.⁶² The ability of taxpayers to contact the IRS via telephone has improved, and customer service at the TACs has shown progress.⁶³ For example, from January 2002 to April 2004, the TAC tax law accuracy rate increased from 54 to 67 percent.

The IRS internet site, www.irs.gov, is an excellent source for forms, publications, and other guidance, and taxpayers visited the site over 139 million times last year.⁶⁴ The site also received an award for being the nation's most reliable government internet site. Electronic filing of tax returns is continuing to

⁵⁹ Pub. L. No. 105-206, 112 Stat. 685 (1998) (codified as amended in scattered sections of 2 U.S.C., 5 U.S.C. app., 16 U.S.C., 19 U.S.C., 22 U.S.C., 23 U.S.C., 26 U.S.C., 31 U.S.C., 38 U.S.C., and 49 U.S.C.).

⁶⁰ TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION, REF. NO. 2004-40-066, FISCAL YEAR 2004 STATUTORY AUDIT OF COMPLIANCE WITH LEGAL GUIDELINES RESTRICTING THE USE OF RECORDS OF TAX ENFORCEMENT RESULTS, (2004); TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION, REF. NO. 2004-30-086, FISCAL YEAR 2004 STATUTORY REVIEW OF COMPLIANCE WITH LIEN DUE PROCESS PROCEDURES (2004); TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION, REF. NO. 2004-30-094, ADDITIONAL EFFORTS ARE NEEDED TO ENSURE TAXPAYER RIGHTS ARE PROTECTED WHEN MANUAL LEVIES ARE ISSUED (2004).

⁶¹ TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION, REF. NO. 2004-30-149, LEGAL AND INTERNAL GUIDELINES WERE NOT ALWAYS FOLLOWED WHEN CONDUCTING SEIZURES OF TAXPAYERS' PROPERTY (2004).

⁶² American Customer Satisfaction Index, "ACSI Overall Federal Government Scores with Historic Scores of Agencies Measured 1999-2004", December 14, 2004.

⁶³ TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION, REF. NO. 2004-30-038, ACCESS TO THE TOLL-FREE TELEPHONE SYSTEM WAS SIGNIFICANTLY IMPROVED IN 2003, BUT ADDITIONAL ENHANCEMENTS ARE NEEDED (2004); TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION, REF. NO. 2005-40-021, CUSTOMER SERVICE AT THE TAXPAYER ASSISTANCE CENTERS IS IMPROVING BUT IS STILL NOT MEETING EXPECTATIONS (2004).

⁶⁴ INTERNAL REVENUE SERVICE, *IRS.gov Cited As Most Reliable Government Web Site*, IR-2004-131, available at <http://www.irs.gov/newsroom/article/0,,id=130492,00.html> (last visited Apr. 7, 2005).

grow, and the ability to check the status of tax refunds online has been a successful IRS project that is helpful to taxpayers.⁶⁵

While the IRS has made progress in the customer service area, enforcement actions have dropped dramatically since the passage of RRA 98. Although the numbers have begun to increase, liens, levies, and seizures against noncompliant taxpayers are all down significantly from their totals in the 1990s. In 1997, for example, the IRS issued over 3.5 million levies compared to just over 2 million in 2004. The drop in seizures is even more striking — dropping from over 10,000 in 1997, to just 440 in 2004.⁶⁶

One contributing factor to the decline in enforcement actions was section 1203 of RRA 98.⁶⁷ That section, commonly known as the “ten deadly sins,” detailed specific actions that, if taken by IRS employees, could result in removal from the IRS. Additionally, section 1204 prohibits the use of enforcement statistics to set goals or evaluate personnel at any level within the IRS. These two sections have caused a great deal of hesitation and concern among employees and managers contemplating enforcement actions, as well as significant confusion about the appropriateness of using time or efficiency measures to evaluate IRS employee performance.⁶⁸ The reduction in enforcement actions is likely due, in part, to these provisions.

However, recent statistics measuring compliance efforts and results show some positive changes in FY 2004.⁶⁹ For example, the amount of enforcement revenue increased by 15 percent in FY 2004, to \$43.1 billion, and this amount (not adjusted for inflation) is 14 percent higher than the FY 1996 level. The increase in FY 2004 is due to a 33 percent increase in the amount collected on business accounts, which was the top priority for the Collection function. Examinations of individual tax returns increased in FY 2004 from the previous year. In comparison, examinations of corporate returns decreased 23 percent from FY 2003, but examinations of corporate tax returns with assets of \$10 million or more increased 34 percent in FY 2004.

TIGTA maintains that the IRS is moving in the right direction to enhance its focus on enforcement of the tax laws. As I stated earlier, however, it is critical for the IRS to have timely, accurate data to make resource allocation decisions to strike the appropriate balance between customer service and enforcement.

⁶⁵ INTERNAL REVENUE SERVICE, *Free File Tops Last Year's Total*, IR-2005-36, available at, <http://www.irs.gov/newsroom/article/0,,id=137055,00.html> (last visited Apr. 7, 2005).

⁶⁶ TIGTA Analysis of IRS Data Book.

⁶⁷ *2001 Tax Return Filing Season: Hearing Before the House Ways and Means Subcomm. on Oversight*, 107th Cong. (2001) (statement of Charles O. Rossotti, Commissioner of Internal Revenue).

⁶⁸ *2001 Tax Return Filing Season*, supra note 67.

⁶⁹ TIGTA analysis of IRS' Enforcement Revenue Information System data, and IRS Data Book Information.

I am concerned that the IRS may take a step backwards on customer service if it follows through with its proposal to close many TACs. The TACs are walk-in sites where taxpayers can receive answers to both account questions and tax law questions as well as receive assistance preparing their tax returns. The IRS is considering closing nearly 20 percent of its approximately 400 TACs nationwide.

As part of an ongoing audit,⁷⁰ we are reviewing the methodology used by the IRS to determine which TACs to close. At this point, I am skeptical that the IRS has adequate data to assess the impact that closing these centers will have on customer service. I am also concerned that the IRS has insufficient data to draw conclusions on the likelihood that taxpayers, who have used these centers in the past, will be able to use other methods of seeking help, such as the internet or telephone. I strongly recommend that the IRS further research these issues before closing selected TACs.

In addition, the IRS has made a decision to cancel the Telefile project. In 2003, TIGTA recommended that the IRS explore other opportunities to expand – not cancel – the Telefile program.⁷¹ We continue to believe the Telefile program services millions of taxpayers and is worth pursuing today. However, the IRS has decided to discontinue the Telefile program after the 2005 filing season due to high costs, low demand, and increased availability of e-filing options. If the IRS follows through with its decision to discontinue the Telefile program, it should at least develop a strategy to accommodate Telefilers who are unable to e-file.

The IRS must exercise great care not to emphasize enforcement at the expense of taxpayer rights and customer service. I believe that steps to reduce the current level of customer service should be taken only with the utmost thought and consideration of their impact, and only with all the necessary data to support these actions. Customer service goals must be met and even improved upon, or people will lose confidence in the IRS' ability to meet part of its mission of providing America's taxpayers quality service by helping them understand and meet their tax responsibilities.

Mr. Chairman and members of the committee, I appreciate the opportunity to share my views on the tax gap, and the work TIGTA has done in this area. I would be happy to answer any question you may have at the appropriate time.

⁷⁰ Draft audit report has not yet been issued.

⁷¹ TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION, REF. NO. 2003-40-092, OPPORTUNITIES EXIST TO EXPAND THE TELEFILE PROGRAM (2003).

Opening Statement of Charles E. Grassley, Chairman
U.S. Senate Committee on Finance
“The \$350 Billion Question: How to Solve the Tax Gap”
April 14, 2005

Today is April 14th, the day before tax day – April 15th. The eve before tax day is different than Christmas Eve – because taxpayers have no choice on whether it is better to give or receive – we’re all giving. The eve before tax day is also different than New Year’s Eve because taxpayers are spending it with pencils and calculators instead of champagne and noisemakers, although I suspect some people will be making a lot of noise in frustration as they try to figure out their tax return and try to navigate the earned income credit or the alternative minimum tax. Unfortunately, while the strong majority of Americans seek to honestly pay the amount of tax they owe and not a penny more, there are many who are playing fast and loose. The problem of the tax gap is costing the Nation over \$300 billion a year in taxes that are not voluntarily paid. I say to my colleagues that there are no easy solutions or answers here. I’m worried that too often senators feel that just a wave of the hand can solve this problem and put billions into the Nation’s coffers. If it were that easy, we would have done it long ago.

We are fortunate to have the Comptroller General of the United States, Mr. Walker, here today whose statement says it very effectively that ending the tax gap will be “a challenging task” and that there is no single solution. It will take multiple efforts on different fronts to address this issue. As I said in last week’s hearing involving charities and charitable giving, the tax gap – like a loaf of bread – is made up of many different slices. We need to understand each one better and look at several ways to address them. But let me make it clear, we will work to address the tax gap – we owe nothing less to the millions of honest working families who find tax day the toughest day of the year. It is absolutely wrong that families have to tighten their belts and find new ways to keep the family budget balanced because others are not paying their fair share.

Today our witnesses will talk about under-reporting, underpayment, and non-filing of taxes, but we will also hear about cases of outright fraud. This is not a matter of taking

advantage of complexities in the code or exploiting grey areas, but open intentional evasion of fuel excise taxes or totally false claims for refunds of fuel taxes never paid, on fuel that they never purchased. This type of fraud probably affects every American, because this is the dedicated tax money that builds America's highways in every State of the Nation. For every dollar these bad guys steal is a dollar that does not make your bridges safe or fix the potholes in your highways.

Last fall, as a part of the American Jobs Creation Act, we were able to enact an anti-fuel fraud package estimated to raise \$9.3 billion by shutting down many of the schemes involving fuel tax fraud. But criminals are creative, and we continue to investigate schemes that range from large scale rings to mom-and-pop operations. Unfortunately, the higher the price of gasoline, the more they are motivated, by blending everything from used motor oil to discarded paint thinner and cleaning products by the billions of gallons to otherwise hide the true nature of the gasoline you may or may not get at the pump. Unfortunately, they not only steal from the U.S. government – they steal from you too. The tax gap is a \$350 billion dollar problem, and we are all working hard to find solutions for the American taxpayer.

**WRITTEN STATEMENT OF
NANCY J. JARDINI
CHIEF, CRIMINAL INVESTIGATION
INTERNAL REVENUE SERVICE
BEFORE THE
SENATE FINANCE COMMITTEE
UNITED STATES SENATE
HEARING ON IRS TAX GAP
APRIL 14, 2005**

Good morning, Mr. Chairman and distinguished members of the committee.

Thank you for the opportunity to be here today to highlight how the unique and specialized skills of the Internal Revenue Service Criminal Investigation Division are being deployed to detect, halt and investigate tax fraud and to protect the revenue. Our testimony today will focus on our very limited, but important, piece of the overall IRS efforts involving compliance in the areas of fuel tax credit and fuel excise tax evasion.

The fundamental mission of the Criminal Investigation Division, or CI, is to serve the American public by detecting and investigating criminal violations of the Internal Revenue Code and related financial crimes. Nearly 2,733 of our 4,307 workforce in CI are federal criminal investigators who have accounting or business backgrounds. These highly skilled special agents follow the money in tax and related investigations that involve sophisticated schemes and complex transactions that span the globe.

Equally important to the accomplishment of our mission are the investigative analysts and investigative support in CI. These employees are also highly skilled and trained in the areas of accounting, analytics, statistics and specialized areas such as return processing, budget, computer operations, communications and other programs critical to the delivery of the CI mission. This team of special agents and investigative analysts work together with our partners in the civil divisions of the IRS to address refund fraud, including fuel tax credit (FTC) fraud and fuel excise tax evasion.

Criminal Enforcement and Revenue Protection

In the area of FTC refund fraud and fuel excise tax evasion, CI addresses revenue protection on several fronts. We halt fraudulent FTC refunds from being released at the earliest stage of the crime – at the processing centers; we criminally investigate both fuel excise tax evasion and fuel tax credit refund fraud; we refer questionable fuel tax credit claims for civil exam, and we accept referrals of developed criminal conduct from the Small Business/Self-Employed Division (SB/SE).

Halting Fraud at the IRS Processing Centers

Housed within each of the 10 IRS processing centers (Campuses) is a CI Fraud Detection Center (FDC). CI employs nearly 600 investigative personnel in our FDCs nationwide who use sophisticated data mining techniques, critical investigative analysis and the cooperative work of our civil function co-workers to detect and delete fraudulent claims for refund. From 1999 to present, the CI has stopped nearly \$4 billion in false refund claims.

All returns filed with the IRS requesting a refund are screened at the Criminal Investigation FDCs by a highly sophisticated data mining system known as the Electronic Fraud Detection System (EFDS). EFDS houses more data than any other computer system at the IRS with the exception of the IRS Masterfile and has the capability to combine refund returns with other IRS files into one centralized system. It also contains additional information including prior year tax accounts and employer identifications to conduct comprehensive data scans and fraud detection.

EFDS enables IRS to apply specific fraud criteria against every processed refund return. The criteria are reassessed and refined yearly based upon a profile that identifies prior false returns as well as a representative sample of legitimate returns.

Returns are also evaluated by other data comparison processes to assess anomalies and other filing trends.

All refund returns are assessed by EFDS which, based on its voluminous data including fraud pattern evidence, identifies highly suspicious returns. Those returns are automatically marked for resequencing which delays processing the return and refund issuance. CI has from 2 days to 23 days to review the suspicious returns, verify the questionable return items and stop the issuance of false refunds.

In addition to the EFDS detection, other paper returns are reviewed by submission processing personnel and suspicious returns are culled out for analysis by CI. Returns determined to be false by CI personnel are analyzed and researched using other data available at the campuses in order to detect and stop any related fraudulent returns. Returns are assigned to schemes and developed to determine their full scope which may also provide leads that could help identify the scheme perpetrator or promoter. Whenever a unique or emerging multi-center scheme is identified, a national alert is issued to all IRS campuses where all personnel involved in the return processing cycle are immediately notified of the scheme.

Once a scheme is identified analysts work quickly to determine the scope and characteristics. In processing the returns, we must do everything we can to ensure valid returns are processed and refunds are timely issued to taxpayers. At the same time, however, it is imperative that fraudulent claims for refund are effectively stopped and that taxpayer dollars are safeguarded. The CI analysts therefore must work quickly to determine the scope and characteristics of any fraudulent scheme and get scheme alerts out to other campuses that might be seeing the same type of fraudulent conduct.

False return schemes are referred to CI field offices for possible criminal investigation. Returns with questionable civil issues are referred to other civil functions as applicable. During processing year 2004 CI reviewed nearly 500,000 questionable refund returns. Of those, they identified more than 118,000 fraudulent tax returns and stopped fraudulent refunds totaling more than \$2.1 billion. From Fiscal Year 2002 through March 31, 2005, CI field offices throughout the country initiated 1,885 criminal investigations and recommended prosecution of 1,230 individuals for refund and return preparer fraud. The primary source of these investigations is the data mining and analytical work done in the CI FDCs.

One of the schemes that CI employees are alert to and the EFDS system is programmed to detect is the fraudulent request for a FTC. In this type of scheme, perpetrators utilize a Form 4136 to claim a FTC regarding off highway business use of gasoline when they are not entitled to the credit. In processing year 2004, the CI FDCs identified more than 15,000 returns that questionably claimed the FTC. The most egregious and broad based schemes were referred to CI field offices for investigation and potential prosecution. The remainder are in the referral process to SB/SE for examination.

Emerging Area of Concern – Misuse of Form 4136, Credit for Federal Tax paid on Fuel

During the 2003 filing season, CI identified the fraudulent use of the FTC to be an emerging area of concern and initiated 22 investigations. Nonetheless, the number of schemes continued to rise in 2004 and CI almost doubled the number of criminal investigations involving the misuse of the FTC.

Trends we have seen include individuals and businesses filing for the FTC using both paper and electronic returns. Individuals and entities are either self preparing these returns or are using the services of a paid preparer who is sometimes complicit in the fraud. Some individuals fraudulently claim the FTC in the current year and, at the same time, file multiple previous years' returns and/or amended returns claiming the FTC.

Many of the identified schemes involve individuals who claim to be self-employed and who claim little or no business expenses. The only income reported on the majority of these returns comes from their Schedule C business. Various occupations have been claimed on the fraudulent returns which do not entitle the individual to the credit. Some of these include taxi services, beauticians, babysitters, waitresses and cleaning services. Both legitimate and bogus businesses have fraudulently claimed the FTC.

Some of the characteristics of the schemes include:

- Stolen taxpayer identity
- Schedule C's Multiple years filed concurrently
- Returns filed in different campuses.

Examples of some recent FTC schemes identified by CI include:

- A scheme involving 966 returns claiming in excess of \$1.9 million in FTC utilizing Form 4136. The occupations claimed on the returns for this scheme do not qualify for the credit. This scheme involved a return preparer who utilized this credit to get his clients refunds.
- A scheme involving over 4200 tax returns claiming more than \$6 million in FTC. This scheme is utilizing Schedule C's and being filed in various processing centers. The scheme consists mainly of paper returns.

- An investigation involving over 100 corporate returns, utilizing Form 4136 claiming FTC of approximately \$3.2 million. This scheme utilized a return preparer who prepared these returns.

Fuel Excise Tax Evasion

In addition to the FTC schemes, CI has historically had a vigorous enforcement program to address fuel excise tax evasion. Since the change in the law in 1993, which stemmed the avenues available to commit tax fraud by changing the point of taxation CI has seen a dramatic decrease in the number of criminal fuel excise tax evasion investigations. Prior to 1993, CI uncovered fuel excise tax evasion activity in the hundreds of millions of dollars. While activity has substantially declined, individuals still attempt to thwart the law. For example, CI currently is investigating a fuel excise tax evasion case involving up to four million gallons of untaxed fuel involved in a “cocktailing” scheme. CI continues to be on the alert for this type of evasion activity and currently has a number of open investigations relative to fuel excise tax evasion.

Ongoing Efforts

Based on the emerging fraudulent conduct CI has identified in relation to the FTC as well as our continuing emphasis on fuel excise tax evasion, we have several initiatives underway.

- We are continually improving/updating our EFDS system by adding new information about schemes to the fraud criteria
- The President's FY 06 Budget requests \$10.7 million to be used to curtail fraudulent refund crimes including FTC fraud.

- We are working closely with SB/SE to ensure that our processes continue to capture and focus on fuel excise tax fraud.
- IRS is aggressively focusing on fraud referrals, ensuring that revenue agents, revenue officers and special agents know and understand the badges of fraud and work together to ensure that fraudulent activity is criminally investigated.
- We are continually improving our fraud scheme alerts to ensure that all employees associated with returns processing are aware of the emerging schemes involving FTC.

In conclusion, the men and women of IRS CI, some of the most skilled financial investigators and investigative analysts in federal law enforcement, are proud of the role we play in achieving these successes.

Mr. Chairman, I thank you for this opportunity to appear before this distinguished committee and I will be happy to answer any questions you and the other committee members may have.

STATEMENT OF
EILEEN J. O'CONNOR
ASSISTANT ATTORNEY GENERAL
TAX DIVISION

BEFORE THE COMMITTEE ON FINANCE
UNITED STATES SENATE

CONCERNING
CLOSING THE TAX GAP

PRESENTED ON

APRIL 14, 2005

I thank the Committee for inviting me to testify today about the progress the government is making in closing the tax gap.

While the tax gap remains a significant challenge, it is important to recognize the dramatic improvements in tax enforcement since 2001, the most recent year for which we have a reliable estimate of the tax gap. When I took office just under four years ago, "tax enforcement" had been out of style for several years. Sophisticated professionals competed to design complicated tax shelters, cloaking the transactions in layers of secrecy. Promoters of frivolous tax scams marketed their schemes openly, on the internet and at public seminars, touting the fact that the IRS had not challenged them as evidence of the supposed validity of the schemes. Offshore banks offered anonymous credit cards and layers of trusts to conceal income from the IRS. Honest tax professionals – lawyers and accountants who tried faithfully to obey the law – increasingly lost clients to less scrupulous people who crossed the line between legitimate tax planning and illegal tax evasion with little fear of consequences, and with profits handsome enough to neutralize what fears might remain.

What effect the revival of tax enforcement will have on the tax gap cannot be measured immediately. But we can already see its impact on the behavior of taxpayers and tax advisers. They now know that we in the Executive Branch, and you in the Legislative Branch, are paying attention. They no longer assume that their sophisticated schemes are beyond our ability to detect. They no longer relax in the comfort of believing that they

can advertise or engage in tax fraud schemes without consequence. They now must factor in the very real risk that they will be caught, and if caught, that they will face civil penalties and possible criminal prosecution.

Although it takes time for our enforcement actions to affect the tax gap, a poll the IRS Oversight Board took last July and released last week provides concrete evidence of our progress. For the first time since the poll began in 1999, the 2004 results showed a positive trend in public confidence in tax enforcement. The poll results are consistent with our success in demonstrating our commitment to detect, pursue and punish tax offenders.

My remarks this morning will focus on two topics:

First, steps we at the Department of Justice Tax Division have taken over the past four years to increase tax law enforcement and help close the tax gap; and

Second, challenges we face in the future.

President John F. Kennedy said,

The integrity of [the tax] system depends upon the continued willingness of the people honestly and accurately to discharge this annual price of citizenship. To the extent that some people are dishonest or careless in their dealings with the government, the majority is forced to carry a heavier tax burden.

That "heavier tax burden" is the tax gap – the difference between taxes owed and taxes paid.

The Tax Division plays a critical role in attacking the tax gap. Some determined tax evaders will change their behavior only if they know that the Tax Division will back up the IRS through criminal enforcement, civil judgments or court orders compelling compliance.

But that is only part of the Tax Division's contribution. The Tax Division is important to the administration of the tax system precisely because it is not the IRS. Rather, it is part of the Department of Justice.

The Department's name describes its mission. *Justice* requires that the laws be enforced uniformly and fairly. The Justice Department's devotion to the fair and uniform enforcement of the laws *Congress passes and the President signs* gives citizens the faith they deserve to have in the institutions of their government.

It is in this atmosphere of *dedication to enforcement of the laws* that the men and women of the Department of Justice Tax Division work every day. While the Division does collect many millions of dollars in taxes every year, the Division's mission is not to collect taxes. It is to do justice – through the fair and consistent enforcement of the tax laws. Knowing that all taxpayers will be treated fairly and consistently encourages honest taxpayers to pay what the law requires, secure in the knowledge that their neighbors and competitors are not gaining an unfair advantage by failing to do so. And knowing that the government really will enforce the laws deters people who might otherwise violate the law if they thought they could get away with it.

By promoting justice, therefore, the Tax Division also promotes the voluntary compliance that is essential to closing the tax gap and building a vibrant, efficient and healthy tax system.

We all know that the tax system would not work if, believing that the tax system was not fairly administered, people did not voluntarily comply with their tax obligations. An IRS three or four times its present size could not compel payment of a fraction of the trillions of tax dollars paid into the Treasury each year, if compulsion were the only means for getting payment.

For our system of voluntary compliance to succeed, it must be seen to be fairly enforced. At the same time, the tax collector must be given power to collect information about taxpayers' financial affairs, to investigate potential fraud, and to collect taxes that are due and owing. But Congress did not vest this vast power in the IRS alone. Congress gave the ultimate enforcement power—the power to approve and pursue criminal prosecutions, and the authority to litigate in the district courts, Court of Federal Claims, and courts of appeal—to the Department of Justice. The Department of Justice, through the Tax Division, independently determines the correctness of the Government's litigating positions and the merits of the cases it brings and defends. This independence provides an institutional

check on the power of the IRS and reassures the taxpaying public that the system is fair.

By bringing together all (but Tax Court) tax litigation under the auspices of the Attorney General, and coordinating nationwide the Government's advocacy using an experienced and expert cadre of tax litigators, the Tax Division ensures that the tax system is efficient and cogent and promotes voluntary compliance.

TOPIC 1: STEPS WE HAVE TAKEN

The Tax Division has concentrated its efforts and resources on solving specialized problems that have arisen in recent years. In particular, we have:

- Worked to combat corporate tax shelters
- Sought court injunctions to block tax scams
- Pursued individuals and businesses using offshore bank accounts to avoid taxes
- And focused on criminal enforcement to promote deterrence.

CORPORATE TAX SHELTERS

In the 1990s, some tax advisers marketed sophisticated tax shelters that they claimed would eliminate billions of dollars in tax liabilities. The people who bought into these tax shelters banked on two assumptions they probably considered pretty solid:

- One: They would never get caught. They assumed the government wasn't smart enough or staffed enough to discover or untangle their complex transactions.
- Two: Even if they were caught, they could rely on "opinion letters" from counsel to avoid penalties.

The last two years have seen each of these assumptions proven wrong. The Tax Division has brought numerous suits against the full array of people and businesses engaged in tax shelter design, promotion, and financing -

including but not limited to banks and investment houses, accounting and law firms. As a result, transactions have been discovered and taxpayers have been identified.

Some tax shelter promoters have tried vigorously to hide their clients' identities behind the shield of privilege. But Tax Division attorneys prevailed in their presentation of the government's view, and courts have ordered the promoters to hand their client lists and transaction documents over to the IRS. Judges have noted the "waste of judicial resources" in dealing with frivolous privilege claims and have chastised the lawyers and accountants involved. With promoters' files opened for IRS inspection, tax shelter purchasers know they cannot hide, and hundreds are now voluntarily seeking to come in from the cold and pay billions of dollars in taxes, interest and penalties.

The second mistaken assumption was that an opinion letter is a "get out of penalties free" card. Tax shelter buyers now know they cannot unreasonably rely on opinion letters to avoid penalties. In a significant decision last year, the Tax Division prevailed at trial in the case brought by Long-Term Capital Holdings, a hedge fund that infamously collapsed a few years ago. The trial court held that reliance on opinion of counsel will help taxpayers avoid penalties only if the reliance is reasonable. In upholding the multi-million dollar penalty the IRS had imposed, the trial court strongly criticized the conduct of the lawyers who had provided unreasonable opinions.

Moreover, as for the merits of alleged tax shelters, in the last four years, the Tax Division has closed down shelters estimated to be worth over \$11 billion industry-wide, by obtaining authoritative appellate decisions on the shelters' lack of merit. The shelter cases that the Division is currently handling implicate over \$20 billion in taxes, interest and penalties payable to the Federal Treasury.

The victories the Tax Division has won, both in identifying tax shelter buyers and in proving that their shelters lack merit, have given the IRS the leverage it needs to make settlement initiatives attractive. The IRS recently announced that 1165 of the more than 1800 taxpayers identified as having engaged in the abusive "Son-of-BOSS" tax shelter had participated in the

IRS's tough settlement initiative, and had paid nearly \$3.5 billion as a result. They would not have stepped up to pay these huge sums had the Tax Division not provided a credible threat of detection and punishment.

TAX SCAMS

Tax shelters for corporations and wealthy individuals are at the "high end" of the tax-avoidance spectrum. At the other end are scams and frivolous schemes peddled to many thousands of people. Up until 2001, the scamsters who sell these low-end tax fraud schemes often went for years without significant government attention. They often used the fact that they had been selling their scheme out in the open, without government intervention, as proof of its legitimacy.

Many were benefiting from the fact that criminal investigations take a long time, and the government was reluctant to take civil action while a criminal investigation was pending. But when a scheme is ongoing and continuing to cost the Federal Treasury, that reluctance to take civil action didn't make sense.

So in 2001, we instituted a program to bring civil injunctions to halt the sale of tax scams. Our initiative has used the "kingpin" theory of enforcement. By halting the scams at the promoter—or kingpin—level, the Tax Division has effectively used its resources to focus on these *few* "enablers" and prevented tax evasion by *hundreds of thousands* of taxpayers. This initiative has saved the Treasury billions and recovered some revenues that had already been lost.

This program has been enormously successful, after starting almost from scratch. In Fiscal Year 2000, for example, no promoter of tax fraud schemes faced a Justice Department injunction complaint. Since then, the Tax Division has filed suits against 129 promoters, 69 in Fiscal Year 2004 alone. In mid-March, the Division obtained its one hundredth injunction against a promoter under this initiative.

The Division's success in this area, where few efforts were being made before, stems from three basic principles we have advocated:

1. Existence of criminal conduct should not bar us from pursuing civil remedies.
2. We cannot permit the fraudsters to peddle their wares in public without taking public action against them.
3. We should use all available tools to pursue promoters.

Consistent with these principles, most of the targets of the Division's injunction work so far have been people who promoted their schemes publicly. We are denying them the ability to claim that "nothing is being done, so it must be OK," and we are strengthening the public perception that the law is being enforced.

Schemes we have enjoined to date include most of those you find on the IRS's "Dirty Dozen" list on its website. These cases involved nearly 400,000 taxpayers, and attempted to cheat the United States Treasury of nearly \$2 billion. To name a few:

1. Claims that people are not required to pay taxes for various frivolous reasons, such as the argument that Section 861 of the Internal Revenue Code exempts U.S. citizens from paying taxes on income received in the U.S.; or that one can expatriate oneself from the tax system without leaving the U.S.
2. Claims for non-existent tax credits, for example, that descendants of slaves can claim tax credits as reparations
3. Schemes setting up sham trusts to allow taxpayers to deduct personal expenses
4. "Warehouse banks" to commingle and conceal assets
5. Schemes advocating filing tax returns falsely reporting "zero" income
6. Urging employers to fail to withhold, report or pay payroll and income taxes

OFFSHORE CREDIT CARD INITIATIVE

To help the IRS identify people and businesses who had stashed money overseas in an attempt to hide it from the IRS, the Tax Division brought suits to serve and enforce John Doe summonses on issuers and processors of offshore debit and credit cards. The results of that effort were huge: millions of dollars in taxes were collected, hundreds of promoters and thousands of offshore account holders were identified, and more than a few criminal investigations are in progress.

CRIMINAL PROSECUTIONS

The prospect of civil enforcement alone will not convince everyone to comply with the tax laws. So the law provides criminal penalties as well. We therefore conduct criminal investigations and prosecutions where appropriate, punishing tax cheaters with prison sentences and convicted criminal status, not just civil penalties and interest. Criminal prosecutions deter tax fraud and reassure honest taxpayers that the law is being enforced fairly and uniformly. Through prosecutions, we send a clear message: Tax law is law, and the criminally culpable will be punished.

Once again, our efforts are paying off. In the last three years, the Tax Division has increased the number of prosecutions it has authorized by 60 percent. At the same time, we have cut the average time it takes to authorize prosecutions by nearly 50 percent.

Tax Division prosecutors review cases referred by the IRS for potential criminal prosecution and determine whether criminal prosecution in a particular case is appropriate and should be authorized. This is the first time in the investigation process that the evidence is reviewed by experienced and independent tax prosecutors. Some of our lawyers have prior service as IRS agents. Others have advanced law degrees in taxation or are certified public accountants. All are experienced in prosecuting criminal tax cases, and all decisions are approved by senior managers with decades of experience.

As a result, the Tax Division is equipped to perform a meaningful, independent review. Also, our lawyers review cases that arise all across the country and are in the best position to ensure that cases developed in one part of the country are treated in similar manner to those developed elsewhere. No other organization within the federal law enforcement community has such institutional expertise in criminal tax prosecutions. Such a centralized review is critical to reassure taxpayers that the law is being applied evenly and fairly, which, in turn, promotes greater respect for the law.

In addition to reviewing and authorizing tax prosecutions, Tax Division attorneys conduct a wide variety of grand jury investigations and prosecutions, either on our own or as co-counsel with Assistant United States Attorneys. In all cases, the ultimate decision whether to approve tax charges rests with the Tax Division, which brings its national perspective to bear in making that decision.

I want to focus on two areas in which Tax Division prosecutors have made significant strides: offshore enforcement and illegal tax protestors

Offshore Enforcement Efforts

Offshore tax schemes are often difficult to detect and prosecute. The countries employed in such schemes usually have strict bank secrecy laws. Compounding the problem, crucial information sought by Tax Division prosecutors—information necessary to prove U.S. tax violations—is often not covered by treaty provisions. Furthermore, even when IRS investigators and Tax Division prosecutors are able to obtain the information, many tax haven countries will refuse to extradite tax criminals. We have nevertheless overcome many of these obstacles by relying on our cadre of experienced prosecutors, some of whom have developed expertise in gathering evidence from foreign countries. For example, when we need to obtain banking records or other business documents from off-shore entities, our attorneys will make requests pursuant to treaties, where they are applicable. They will also issue subpoenas to offshore businesses doing businesses in the United States in their efforts to identify records needed in a prosecution. And they will aggressively pursue the tax cheats who use foreign bank secrecy laws to try to hide income and assets.

Illegal Tax Protest Activities

Under another initiative, our criminal prosecutors focus on illegal tax protest activities. Tax schemes in this category include claims that the individual is a “sovereign citizen” not subject to U.S. laws, the U.S. income tax is unconstitutional, the taking of sham “vows of poverty” by taxpayers, and the harassment of government employees and judges. Of course, every court to have ruled on such arguments has held that they are without merit. Still, the arguments continue to be offered. It is important that we ensure that the tax laws are enforced with respect to all citizens, both to protect the fisc, but also to reassure honest taxpayers—who comprise the vast majority of taxpayers nationwide—that they are not shouldering an unfair portion of the tax burden. Tax Division attorneys have and will continue to prosecute criminal tax conduct.”

TOPIC 2: CHALLENGES FOR THE FUTURE

The Tax Division can sometimes help lead the IRS into new areas of tax enforcement, such as our effort to expand the use of civil injunctions to stop tax scam promoters. But for the most part, the *input* of the Division’s workflow is driven by the IRS’s *output*. When the IRS’s enforcement efforts decline, so does the work of the Tax Division. When IRS increases its enforcement efforts, its need for a strong Tax Division to back up its efforts rises as well.

We are happy to observe that the IRS has increased its emphasis on enforcement in recent years. The effects of that increased emphasis are already being seen in the Tax Division. And clearly there is more to come. Tax Division activity is always a lagging indicator of the level of IRS enforcement activity. Because only when IRS administrative tools fail to resolve the matter must the Tax Division come to bat.

The IRS’s Son-of-Boss initiative is a good example of this. The IRS’s recent announcement concerning the number of taxpayers who participated in the Service’s “Son of Boss” settlement initiative was striking, not only because of the \$3.5 billion the Service has received through the initiative but also because of the *hundreds* of taxpayers, whom the IRS has already identified, who did not accept the deal and whose tax liabilities will now be

litigated in court. And the "Son of Boss" initiative is only one of several settlement initiatives that the IRS has in the works.

The Tax Division is proud of the role we have played in providing the enforcement "stick" that makes the IRS's "carrot" of settlement initiatives effective. It is essential that the Tax Division be able to continue providing this support that is so critical to the IRS's success in promoting voluntary compliance.

CONCLUSION

The men and women of the Tax Division have given us all plenty of reason to be proud and pleased - as citizens and taxpayers - of what they have achieved in promoting fair and uniform enforcement of the tax laws.

Our collection efforts bring in tens of millions of dollars each year to the Federal Treasury, typically nearly as much as our annual appropriation. Through the successful defense of refund claims, we additionally save the Treasury hundreds of millions of dollars each year. Over the last four years, through actual collections and direct refund savings, we have saved the Treasury nearly a billion dollars per year. These are the direct savings, and do not include the many billions of dollars saved through the establishment of precedent and the deterrent effect of our litigation and prosecutions.

By closing down sophisticated tax shelters, enjoining tax scams, and appropriately prosecuting criminal activity, we are promoting justice.

There is much left to do, and we in the Tax Division look forward to continuing to undertake these challenges. And I look forward to answering your questions.

Thank you once again.



U. S. Department of Justice

Office of Legislative Affairs

Office of the Assistant Attorney General

Washington, D.C. 20530

August 1, 2005

The Honorable Charles E. Grassley
 Chairman
 Committee on Finance
 United States Senate
 Washington, D.C. 20510

Dear Mr. Chairman:

We are pleased to respond to the questions Senator Baucus posed at the hearing on April 14, 2005, entitled "The \$350 Billion Question: How to Solve the Tax Gap," and in the attachment to your letter of April 19, 2005.

At the hearing, Senator Baucus asked: "[I]n the last three years, 2002, 2003 and 2004: for the record, what is the number of prosecutions recommended by the IRS? Of those, how many were prosecuted? Of those, how many resulted in settlement? Of those, how many judgments did you get favorable to the IRS, and the amounts?"

The table below addresses the first four of these questions:

	<u>2002</u>	<u>2003</u>	<u>2004</u>
Targets IRS referred for prosecution	1,149	1,595	1,544
Prosecutions authorized	968	1,129	1,381
Prosecutions initiated	1,023	1,049	1,104
Guilty pleas	835	803	806
Convictions (includes guilty pleas)	940	888	921

This table illustrates Assistant Attorney General O'Connor's statement at the hearing that a criminal enforcement event occurring in any fiscal year will often be related to an event that occurred in a prior year. Targets IRS refers for prosecution in any given year, for example, include targets for which IRS commenced investigation in an earlier year. Defendants indicted or otherwise charged in any given year include many referred in a prior year. Guilty pleas and convictions occurring in any given year include many defendants who were indicted or charged in a prior year.

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A recent example reveals the limitations of annual statistics to illustrate the upswing in criminal tax enforcement activity: in April 2005, Keith Anderson and five co-defendants were sentenced to serve prison terms ranging from five to twenty years and to pay restitution of more than \$63 million in connection with their roles in Anderson's Ark and Associates (AAA), an organization that spanned five countries and helped more than 1,500 clients evade taxes on \$120 million in taxable income. The defendants were convicted on charges of conspiracy to defraud the government, mail and wire fraud, money laundering, and aiding and assisting the filing of false tax returns. The original indictment was returned in 2002, the trial was completed in 2004, and the sentencing occurred in 2005.

Senator Baucus also asked about the amounts of the judgments that related to the above criminal referrals and prosecutions. Criminal judgments, however, do not establish a defendant's civil tax liability: the objective of a criminal prosecution is to prove in a court of law that the defendant has committed a crime and to secure an appropriate criminal punishment. The assessment and collection of civil tax liabilities are responsibilities of the Internal Revenue Service. Section 6103 of the Internal Revenue Code renders these, like other administrative matters the IRS has not referred to the Department of Justice, outside the ability of the Department to track. We have been working with the IRS, however, to develop procedures to ensure that the IRS assesses and collects taxes from convicted criminal defendants.

In the attachment to your letter of April 19, 2005, Senator Baucus asked the following questions:

1. "From your standpoint, are the current tax laws and penalties sufficient to address the criminal tax abuses which involve or rely on the movement of income and assets offshore? If not, what specific recommendations could you offer to address this area of deficiency?"

Many pending and impending cases involve the movement of income and assets offshore to evade taxes, and Department of Justice prosecutors and IRS agents are effectively using existing tools to detect and prosecute people who promote and use such schemes. For example, in April 2005, Chief Judge John C. Coughenour of the Western District of Washington sentenced four defendants to terms of imprisonment ranging from eight to 20 years in connection with their convictions for a criminal tax scheme that involved the transfer of millions of dollars to banks in Costa Rica. In February 2005, a grand jury in the District of Columbia returned an indictment against Walter Anderson alleging that he earned nearly a half billion dollars through investments

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in business ventures conducted through offshore corporations set up in the British Virgin Islands and Panama to make it appear that he did not control the income. The Department of Justice has no legislative recommendations at this time.

2(a). "Is there a category of cases which could be eliminated from the current review process? Please explain."

There is presently no category of case for which the review process should be entirely eliminated. This has been objectively reviewed over the course of the Assistant Attorney General's tenure. As you know, some criminal matters investigated by the Internal Revenue Service are outside the jurisdiction of the Tax Division. The Tax Division recently has eliminated inefficiencies and developed a streamlined and expedited review process for the cases that are subject to its review. The review process currently in place serves important national goals -- promoting nationwide uniformity in tax enforcement; protecting taxpayers against unwarranted enforcement actions; ensuring that only meritorious cases are prosecuted; assuring Assistant United States Attorneys that the tax charges are appropriate -- without unwarranted delay.

The Tax Division continuously reviews its processes and procedures to ensure that currently available resources are being brought to bear against current law enforcement challenges in the most efficient and effective manner possible. Toward that end, revisions to the review process during the tenure of Assistant Attorney General O'Connor have drastically reduced -- from an average of more than 90 to an average of less than 30 days, with one-day turnaround in time-urgent cases -- the time taken to review proposed criminal tax prosecutions, while substantially increasing -- by nearly 60% from 2001 to 2004 -- the number of prosecutions approved each year. The Tax Division did so in part by adopting a "fast track" program that targets its limited resources on the cases most in need of thorough review by experienced Tax Division prosecutors.

2(b). "What is the status of the proposal before the Attorney General's Advisory Committee?"

The Attorney General's Advisory Committee (AGAC) of United States Attorneys recently considered and rejected a proposal by the Internal Revenue Service to eliminate Tax Division review.

2(c). "In a world of scarce investigative and prosecutorial resources, what is your office doing to address the backlog of authorized criminal tax prosecutions pending with United States Attorneys' Offices?"

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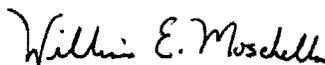
The "backlog." Annual criminal prosecution authorizations have increased by 60% since 2001. Despite this dramatic increase in the volume of prosecution referrals, however, there is not a significant "backlog" of cases. While 1,253 targets approved for prosecution have yet to be charged, half of those were referred for prosecution within the past six months. Many of the other half are now the subject of additional investigation by Assistant U.S. Attorneys, or of negotiations between the Assistant U. S. Attorney and defense counsel.

What we are doing: One of the objectives of Tax Division review is the resulting advice to Assistant U.S. Attorneys about additional factual development that might be beneficial or required in connection with a particular tax charge, or about technical issues of law or proof specific to the investigation and prosecution of tax crimes. Additionally, we often assign Tax Division prosecutors attorneys to handle cases that raise especially complex, or multi-jurisdictional tax issues or to assist United States Attorneys experiencing resource constraints. In the first quarter of fiscal year 2005, for example, Tax Division prosecutors handled six jury trials, resulting in the convictions of fourteen defendants on criminal tax charges. Among those cases was one of the most significant international tax fraud schemes ever prosecuted.

Finally, the Tax Division has contributed to the shift of resources from the litigating divisions of Main Justice to United States Attorneys' Offices: from 2001 to 2005, the number of attorneys in our criminal enforcement sections dropped from 93 to 68. During this period, 19 Tax Division prosecutors transferred directly to U.S. Attorneys' Offices.

If we can be of further assistance regarding this or any other matter, please do not hesitate to contact this office.

Sincerely yours,



William E. Moschella
Assistant Attorney General

cc: The Honorable Max Baucus
Ranking Minority Member

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**STATEMENT OF NINA E. OLSON
NATIONAL TAXPAYER ADVOCATE**

**BEFORE THE
UNITED STATES SENATE COMMITTEE ON FINANCE**

**ON
THE TAX GAP**

APRIL 14, 2005

Mr. Chairman, Senator Baucus, and Members of the Committee:

Thank you for inviting me to testify before your committee today about closing the tax gap while improving taxpayer service. My testimony will address two major issues: (1) the role of enforcement in increasing compliance and (2) the role that high quality customer service plays in promoting compliance. Moreover, as the IRS attempts to improve compliance, it cannot overlook the contribution that taxpayer rights make to closing the tax gap.

I. Understanding the Tax Gap

The tax gap represents, in essence, a failure to pay tax on the part of some taxpayers.¹ This collective failure to pay imposes greater burdens on other taxpayers who pick up the tax "tab". The tax gap is an issue of fundamental fairness in the tax system. If honest taxpayers feel like chumps, some will start fudging, too. Thus, the tax gap can erode the level of confidence that taxpayers have in the government, thereby reducing federal revenue and increasing the need for more examination and collection actions. The tax gap, then, can produce a vicious cycle of increased noncompliance and increased enforcement.

According to the preliminary data recently released by the IRS as part of the National Research Program (NRP) study of Tax Year 2001 individual income tax returns, the gross tax gap falls somewhere in the range between \$312 and \$353 billion. After accounting for receipt of late payments and IRS collection activity, the IRS estimates the net tax gap is in the range between \$257 and \$298 billion. The IRS estimates tax noncompliance is in the range of 15.0 percent to 16.6 percent. Or, put differently, the rate of taxpayer compliance with the tax laws in 2001 ranged from 83.4 percent to 85 percent.

The IRS receives approximately 130 million individual income tax returns each year. Given the current size of the net tax gap, the average tax return includes a \$2,000 per year "surtax" to subsidize noncompliance.

II. Composition of the Tax Gap

The tax gap can be looked at through several lenses. For example, we can view the tax gap by the type of noncompliance – nonfiling, underreporting, and underpayment – or by the type of tax – income, employment, estate or excise. The IRS's 2001 NRP study updates its current tax gap estimates for underreporting of individual income and self-employment taxes, which together

¹ The IRS develops estimates of both the "Gross Tax Gap" and the "Net Tax Gap." The Gross Tax Gap is the amount of tax that is imposed by law for a given tax year, but is not paid voluntarily and timely. The Net Tax Gap is the portion of the Gross Tax Gap that will not be collected after all IRS and taxpayer actions have been completed for a given tax year.

are by far the largest component of the tax gap. In fact, the IRS estimates that underreporting accounts for more than 80 percent of the tax gap.²

The IRS estimates that individual income and self-employment taxes on unreported business income ranges from \$134 to \$155 billion, almost one-half of the gross tax gap. Based on earlier 2001 estimates, fully 67 percent of the gross tax gap is attributable to nonpayment of income taxes and employment taxes by self-employed individuals.³

The self-employed community always reacts a little defensively to these statistics, and understandably so. So let me emphasize one point here. No one – certainly not I – is suggesting that self-employed persons are any less honest than wage earners employed by businesses. However, there are certain aspects about the way the tax system treats self-employed persons that provide what I call “opportunities for noncompliance.” I use this term because it encompasses both inadvertent and deliberate noncompliance.

While all wages paid to employees are subject to withholding and third-party reporting, payments to self-employed persons are rarely subject to withholding and are often not subject to third-party reporting. Tax withholding and third-party reporting are important tools in the IRS’s effort to increase compliance. For example:

- Where payments are subject to withholding, IRS estimates that compliance is almost 100 percent.⁴
- Where payments are reported to the IRS, IRS estimates that compliance is about 96 percent.⁵
- Where payments are not reported to the IRS at all, overall compliance is substantially lower.⁶

The above data tell us what most people intuitively expect: Where a taxpayer knows the IRS is aware of a payment, the taxpayer generally will report it on his

² Individual income and self-employment tax underreporting can arise from a number of sources, including understated income and overstated deductions, expenses, and claims. The preliminary 2001 NRP data estimates that underreporting ranges from \$250 to \$292 billion. IRS National Headquarters Office of Research, Tax Gap Facts and Figures, March 29, 2005.

³ This estimate includes underreporting, non-filing and non-payment of income and employment taxes by all self-employed taxpayers. IRS National Headquarters Office of Research (unpublished projections furnished for TY 2001).

⁴ IRS National Headquarters, Office of Research, July 2004.

⁵ IRS National Headquarters, Office of Research, July 2004.

⁶ The IRS estimates that compliance among informal suppliers is about 20%, officials in the IRS Research function have unofficially estimated the compliance rate among sole proprietors at about 50%, and one IRS study estimates the compliance rate among self-employed persons overall at about 68%. IRS National Headquarters, Office of Research, July 2004.

or her return. Where a taxpayer thinks the IRS has no clue about the payment, the likelihood that the taxpayer will report the payment is substantially lower. The large majority of the tax gap attributable to self-employed persons does not result from payments reported to the IRS on a Form 1099. Most of that tax gap results from payments not reported to the IRS. In other words, the bulk of the tax gap is attributable to the “cash economy.”⁷

III. IRS Enforcement Priorities

The IRS places priority emphasis on combating corporate tax shelters and abusive schemes used by high-income individual taxpayers. This approach is justifiable for two reasons. First, corporate tax shelters and abusive schemes have received extensive press coverage, and it is essential that the public not perceive these taxpayers as “getting away with anything.” Second, the direct revenue gains from a single audit are much higher for high-income taxpayers.

In light of the updated tax gap data, however, the IRS needs to develop a broader long-term focus, particularly with respect to the cash economy. Clearly, the Treasury’s and IRS’s emphasis on combating corporate tax shelters and abusive schemes by individuals has had an effect on such activity. The good news, based on our conversations with tax professionals in law and accounting firms, is that the truly abusive deals have largely stopped. The bad news is that the tax revenues to be gained from focusing so heavily on these schemes predictably will dry up in the next few years.

There will always be yet another scheme or shelter that someone is hatching somewhere, and the IRS needs to have a strategic plan for identifying and addressing these products before they gain much ground. At the same time, the IRS must turn its focus to the largest portions of the tax gap, including the self-employed. There is simply no way to make significant progress in reducing the tax gap if we fail to aggressively go after the segment responsible for two-thirds of that gap. Indeed, the perception that the IRS is focusing so heavily on corporate tax shelters and abusive schemes could widen the tax gap if it continues for too long. In particular, if taxpayers operating in the cash economy believe that the IRS is devoting most of its attention to going after others, they may be emboldened to cheat even more.

The IRS estimates Schedule C underreporting noncompliance to be 32 percent.⁸ Today, the IRS is directing 14 percent of its examination resources to

⁷ It is important to note that some noncompliance in the self-employed sector may be attributable to inadvertent noncompliance, including the complexity of the tax law. Self-employed businesses are small and often marginal businesses; cash is very dear to them. Thus, most self-employed underpayments are attributable to a lack of withholding – or forced saving – mechanism.

⁸ Office of Research, July 2004.

Schedule C returns.⁹ These examinations, however, generally focus on high income taxpayers. The IRS's current examination work plan all but ignores the cash economy, the largest component of the tax gap.

IV. Much More and Better IRS Research Is Needed

I am very concerned that the IRS does not have better research to show how its dollars could be most effectively applied. The IRS should be conducting extensive research now to develop a long-term and sustained strategy for reducing the tax gap. This strategy must focus on the indirect effects as well as the direct effects of IRS initiatives.

Today, the IRS is under enormous pressure to show that it is ramping up enforcement. The traditional way to demonstrate results is to show improvements in performance measures that are objectively determinable, such as collection actions (e.g., the dollars collected and the number of liens filed and levies issued), examinations (the number of audit starts and closures), criminal investigations (e.g., the number of investigation starts and closures, and the number of criminal case referrals to the Department of Justice), as well as cycle time measures for each of these areas.¹⁰

IRS activities, however, have indirect revenue effects as well, and the indirect effects in most cases are probably greater than the direct effects. Assume, for example, that the IRS ramps up audits in a heavily cash-based industry like construction and conducts the audits effectively. The indirect revenue gains resulting from these audits would greatly exceed the direct revenue gains as word spreads throughout the industry that the IRS is back on the street. In economic terms, this indirect effect is referred to as a "multiplier." (Not being an economist, I sometimes call it the "ripple effect.")

For the IRS, the long-term challenge in combating the tax gap is to allocate the bulk of its resources toward initiatives that produce higher multiplier effects – even where the direct revenue effects are not as great. It is essential to recognize that not all audits are created equal. One dollar spent on auditing industries with historically high rates of noncompliance may have a very different multiplier than an audit of a corporate tax shelter. Similarly, one dollar spent on making it easier for taxpayers to comply with their tax obligations – e.g., publishing forms, advertising e-file, answering tax law questions – almost certainly has a multiplier effect as well. We simply don't have adequate research to show where the next dollar is best spent.

⁹ IRS, Report to Congress: IRS Tax Compliance Activities, July 2003; AIMS Database (closed cases), IRS Examination Table 37 – An Examination activity management report and Automated Financial System (AFS) Database.

¹⁰ Each of these measures is a legitimate window into IRS activity. However, each, if not properly explained to employees and properly applied, can lead to inappropriate IRS action and incentives.

Moreover, in terms of improving overall tax compliance, we don't have data that show whether the "multiplier effect" is generally greater at this time for enforcement or for taxpayer service. Thus, a decision to increase enforcement and reduce taxpayer service is, to a large degree, based more on instinct than solid research. To be sure, conducting research on these issues is not easy research to do. But in the absence of better research, it is important to emphasize that current decisions about how much to increase or decrease certain activities represent merely a policy call based on educated guessing.

V. Incorporating Taxpayer Service and Taxpayer Rights Within Enforcement Initiatives

I will discuss later the balance between taxpayer service and enforcement, but I'd like to emphasize here that taxpayer service and taxpayer rights should not be viewed as separable from enforcement. Taxpayer service and taxpayer rights must be integrated within IRS enforcement initiatives as well. In addition to developing a strategic plan that leverages the indirect effect of examination and collection activity, the IRS must gain a better understanding of the causes of noncompliance. Taxpayers do not all think, act, and react in the same way, and a comprehensive approach toward noncompliance must recognize these differences.¹¹

The IRS should apply the appropriate enforcement approach to the particular type of noncompliance it is addressing. For example, the IRS collects about \$18 billion between the first and fourth notice in the collection stream.¹² It would be a waste of resources and, more importantly, an abuse of taxpayers to issue levies when a taxpayer is responding to IRS notices by making payments.

The type of examination can impact the audit outcome. Consider the IRS approach to Earned Income Tax Credit examinations. We do not know how much EITC noncompliance is attributable to fraud and how much to inadvertent error. If we treat each EITC overclaim as fraud, we are likely to discourage eligible taxpayers from claiming the credit. Moreover, if we ignore the fact that a disproportionately large number of EITC taxpayers may not be able to understand extensive documentation requests or respond to complicated notices, we will get incorrect results from our examinations.

As part of my 2004 Annual Report to Congress, the Taxpayer Advocate Service released a study that empirically demonstrates that 43 percent of taxpayers who

¹¹ For a discussion of the categories of taxpayer noncompliance, see Leslie Book, *The Poor and Tax Compliance: One Size Does Not Fit All*, 51 U. Kan. L. Rev. 1145 (2003); see also National Taxpayer Advocate, *2004 Annual Report to Congress Volume I – Most Serious Problem: IRS Examination Strategy*, Publication 2104 (Rev. 12-2004) 211.

¹² ERIS Report, *Average Collected Dollars Per Fiscal Year*, FY 1995 through 1st Quarter FY 2001.

sought reconsideration of correspondence examinations that disallowed the EITC in whole or in part received additional EITC as a result of the audit reconsideration.¹³ Where the taxpayer received additional EITC, he or she received, on average, 94 percent of the EITC amount claimed on the original return. Moreover, when TAS employees initiated contact with taxpayers by phone instead of relying solely on correspondence, the likelihood of a taxpayer receiving additional EITC increased significantly in direct proportion to the number of phone calls made by the TAS employee.

The findings of the study suggest that the IRS's mode of communicating with a taxpayer in the audit environment affects the outcome of the audit. In the study, TAS recommended that the IRS enforce its current policy that IRS examination employees attempt two telephone contacts with the taxpayer. We suggested that the IRS incorporate knowledge of taxpayer characteristics into audit design and train its employees to identify circumstances where an IRS-initiated phone contact may help the taxpayer comply with IRS requests.

VI. Balancing Tax Law Enforcement with Taxpayer Service and Taxpayer Rights

In developing a long-term strategic approach toward noncompliance, the IRS must remember that the "stick" is not the only effective tool for addressing the tax gap; the "carrot" has a critical role to play, too. For taxpayers who will make reasonable but not Herculean efforts to comply with the tax laws, taxpayer service makes all the difference. If we make it easy for taxpayers to get forms, get answers to tax law questions, file returns, and get assistance if they run into problems, the vast majority of taxpayers will meet their tax obligations. If, instead, we increase the burdens of compliance too much, we will lose some of these taxpayers. Just as with indirect revenues on the enforcement side, the indirect revenue gains on the taxpayer service side are not easily measurable. But these gains exist, and they are significant. If we start emphasizing enforcement at the expense of taxpayer service, we ultimately will not achieve the overall revenue gains that we are seeking.

Taxpayer service and enforcement activities work hand-in-hand to promote high levels of compliance. Both are responsible for the estimated 84 percent compliance rate we have today, and both must be strengthened if we are to increase the compliance rate meaningfully. Importantly, in attempting to increase compliance among the lagging 16 percent of taxpayers, we have to be sure that we don't take steps that will decrease compliance among the existing 84 percent.

Recently, the IRS's approach to combating the tax gap has focused almost exclusively on enforcement. Noncompliant taxpayers are often characterized as

¹³ National Taxpayer Advocate, *2004 Annual Report to Congress Volume II – Earned Income Tax Credit (EITC) Audit Reconsideration Study*, Publication 2104B (Rev. 12-2004).

“cheaters.” In my view, this is a mistake. The carrot and the stick are inextricably intertwined.

We can categorize taxpayers – somewhat simplistically – into three groups. They are either currently complying with the tax laws, or trying to comply, or not trying to comply at all. The taxpayers who aren’t trying to comply may respond only to enforcement, but taxpayers who are seeking to comply will do so if we make it easy. These taxpayers will be much less likely to comply if we make it difficult. Thus, there should be minimal barriers for these taxpayers to get forms and answers to tax law questions, file returns, and obtain assistance if they run into problems. Even enforcement problems.

Today, all we know about noncompliant taxpayers is the nature of their noncompliance, not the underlying reasons for it. We know whether taxpayers are nonfilers, or underreporters, or non-payors. If we don’t understand the reasons for noncompliance, we run the risk of a shotgun approach. We may hit someone with serious enforcement actions when a less drastic approach might work and might have better long-term compliance effects.

VII. The Effect of “RRA 98 Environment” On Compliance

We hear regularly that, in the aftermath of the enactment of RRA 98, taxpayer service was king and enforcement lapsed into a “coma.” First, I do not agree with this characterization. During the fiscal years from 1996 through 2004, although individual audits declined by 48.1 percent,¹⁴ math error notices increased by 110 percent, from 4,750,771 in FY 1996 to 9,987,779 in FY 2004.¹⁵ In fact, between FY 1996 to FY 1998, the number of individual audits declined by 38.6 percent¹⁶ because in those years Congress gave the IRS the authority to use math error and summary assessment procedures for errors pertaining to Social Security Numbers for purposes of the EITC and dependency exemptions, and self-employment tax.¹⁷ As a result of this legislative authority, the IRS was able to discontinue conducting audits in these areas because it could correct the errors in an automated and more cost-effective manner. While the IRS did 748,766 fewer individual audits between FY 1996 and FY 1998, the number of math error assessment notices increased by almost a million during that period, from 4,750,771 to 5,688,906, or an increase of 19.3 percent. In fact, in FY 2004, the IRS issued 9,987,779 math error assessment notices.

¹⁴ 1996 IDRS Data Book, table 11, and 2004 IRS Data Books, table 10.

¹⁵ IRS Report to Congress: Compliance Activities, table 1, July 15, 2003; Office of the Notice Gatekeeper, Master File Notice Volume Report.

¹⁶ 1996 IDRS Data Book, table 11, and 1998 IRS Data Books, table 17.

¹⁷ IRC § 6213(g)(2)(F) - (H).

On the other hand, during the period from FY 1996 through FY 2004, the IRS increased its level of service on the telephones from 50 percent to 87 percent.¹⁸ It conducted a comprehensive review of notice clarity and improved the wording on literally hundreds of notices and publications. Moreover, the IRS created two functions dedicated entirely to outreach and communication with our largest taxpayer populations – the individual wage-earner and the small business person. Most importantly, then-Commissioner Rossotti attempted to instill in the IRS recognition that taxpayers deserve world-class customer service. If taxpayers are trying to file their taxes, we can at least answer their questions promptly and helpfully. If we are asking people to give up their money, we can at least be polite about it.

If enforcement actions – exams, liens, levies, and criminal investigations – truly were the key to taxpayer compliance, one would expect the compliance rate during this period to drop as drastically as these enforcement actions did. Yet the compliance rate in 2001 is about the same as the compliance rate in 1988, before the enforcement decline occurred. Clearly, some other factor is at work here. Perhaps it is the increase in the automated non-audit activity I described above. But perhaps – just perhaps – what made taxpayers compliant is the marked increase in taxpayer service.

What we saw in Senate Finance Committee cases referred to TAS as a result of the RRA 98 hearings was not the extreme series of abuses that grabbed headlines. Instead, what we saw were many little errors that added up – the IRS's unwillingness to call taxpayers, to take the extra step to bring the taxpayer into compliance, coupled with the IRS's assumption that a noncompliant taxpayer was a cheating taxpayer. These cases documented a profound erosion of basic taxpayer service in order to close out case inventory, assess dollars, and collect tax – in short, a one-size-fits-all approach.

To be sure, revenue gains that result from high-quality taxpayer service are difficult to measure, and if the IRS is pushed too hard to produce statistical data to substantiate its enforcement efforts, taxpayer service will continually get the short end of the stick. But in the long run, the tax gap will grow if enforcement is bolstered at the expense of taxpayer service. Simply put, the IRS must find a way to walk and chew gum at the same time.

VIII. Proposed Cuts to Taxpayer Service in FY 2006 and Beyond

The proposed IRS budget for Fiscal Year 2006 sets forth an increase for enforcement funding of eight percent and a decrease in taxpayer service funding of one percent. I support an increase in enforcement resources, and I certainly understand the competing demands of today's fiscal environment. However, for

¹⁸ General Accounting Office, *IRS' 1996 Tax Filing Season – Performance Goals Generally Met; Efforts to Modernize Had Mixed Results*, GAO/GGD-97-25, (Dec. 1996), 5; Enterprise Snapshot Report, week ending September 30, 2004.

all the reasons discussed above, the cuts in taxpayer service raise some significant concerns.

First, I believe this allocation understates the extent of the cuts to taxpayer service. Submission processing – the processing of tax returns, other forms, and documents – accounts for fully 36 percent of the taxpayer service budget. This function is essential to all other IRS activities and is unlikely to sustain any cuts, other than those attributable to modest productivity gains. Thus, it is likely that the IRS will make cuts of more than 1 percent in the other two subcategories under taxpayer service, *i.e.*, in taxpayer assistance and outreach. Indeed, the General Accounting Office analyzed the proposed budget and concluded that it would reduce staffing for taxpayer service by 3.6 percent.¹⁹

Second, the proposed budget for FY 2006 reflects a significant and continuing trend toward more enforcement and less taxpayer service. As compared with the FY 2004 budget as enacted, the proposed FY 2006 budget reflects a cumulative increase of about 14 percent for enforcement funding and a reduction of about 4 percent for taxpayer service funding.²⁰ The Taxpayer Advocate Service's own staffing has declined by eight percent since 2004.

Third, I am concerned that the speed with which the IRS must determine how to cut taxpayer service does not allow the agency adequate time to study where cuts could be made with minimal impact on taxpayers. This inadequacy is a matter of great urgency with respect to the proposal to close a significant number of Taxpayer Assistance Centers (TACs). Historically, the IRS's walk-in sites provided a wide range of services, from tax return preparation to answering tax law and account questions, to providing forms, to helping to resolve examination or collection problems. Today, however, the TACs are withdrawing from any meaningful tax return or other document preparation; are not answering questions it considers "out-of-scope"; are no longer providing computer transcripts of taxpayers' returns or their accounts; and are generally limiting the days and hours of operation. In short, face-to-face taxpayer service is becoming a thing of the past.

The IRS is making these decisions in a vacuum of taxpayer-based information. I was briefed about the IRS-developed model for recommending the closure of walk-in sites for FY 2006 very late in the process. While I applaud IRS employees for doing the best job they could under tight deadlines, the model fails to consider taxpayer needs, as identified by taxpayers themselves.²¹ The IRS

¹⁹ General Accounting Office, GAO-05-416T, *Internal Revenue Service: Assessment of Fiscal Year 2006 Budget Request and Interim Results of the 2005 Filing Season 6* (April 7, 2005).

²⁰ General Accounting Office, GAO-05-416T, *Internal Revenue Service: Assessment of Fiscal Year 2006 Budget Request and Interim Results of the 2005 Filing Season 6* (April 7, 2005).

²¹ It is my understanding that the IRS consulted the Internal Revenue Service Advisory Committee (IRSAC) with respect to the weighting of factors used to determine closings. However, the IRS did not consult the Taxpayer Advocacy Panel (TAP), a Treasury panel of

has never, to my knowledge, conducted a comprehensive taxpayer-centric assessment of which taxpayer populations need to interact with the IRS in a face-to-face environment; which services those taxpayers need in a face-to-face environment; and which alternative methods of face-to-face delivery will meet those needs.

More importantly, over a period of less than 6 months, the IRS is deciding to significantly curtail a successful and established way of doing business with taxpayers that has existed for more than 40 years.²² In making this decision, the IRS does not know what face-to-face assistance taxpayers say they need in order to comply with the tax laws. Rather, the IRS is merely using demographic data as a proxy for taxpayer preferences. It is also basing its decisions on TAC service usage over the last few years, which is a distorted measure, since TAC services greatly declined during that period. Such measurement is a self-fulfilling proposition. Businesses rarely make major decisions without surveying their customer bases, and it's not wise for IRS to move forward without doing so.

We do have some credible data to guide us in our decision-making. A recent study conducted by the Pew Internet and American Life Project attempted to measure how Americans communicate with their government. Generally, the study found that most Americans prefer to communicate with the government orally (either by phone or in person), rather than by letter or over the Internet. The study points out that one-third of American adults lack Internet access, and that among all individuals who interact with the government (including Internet users), 51 percent prefer oral communication (telephone or in-person visits) for routine matters and 62 percent prefer oral communication for complex matters or problem-solving. Notably, fully 20 percent of Americans reported that their most recent contact with the government was in person.

These findings are dramatically reinforced by the results of the IRS Oversight Board's recently released 2004 Taxpayer Attitude Survey.²³ Conducted annually,

volunteer taxpayers specifically chartered under the Federal Advisory Committee Act to advise the IRS on matters pertaining to customer service. Nor did the IRS seek comments or suggestions from the Low Income Taxpayer Clinics funded by the IRS under IRC § 7526, which presumably represent the interests of a portion of the taxpayer population affected by these closings.

²² In July 1963, the IRS instituted a year-round Taxpayer Assistance Program, and Taxpayer Service was established as a branch in the Collection Division in the National Office. *IRS Historical Studies - History of the IRS*, Publication 1694 (12-92), p. 178.

²³ IRS Oversight Board, 2004 Taxpayer Attitude Survey, April 2005. The IRS Oversight Board has contracted with a professional survey firm to conduct telephone surveys of taxpayers' attitudes since 2002. Telephone interviews are conducted via OmniTel, a weekly national telephone omnibus service of NOP World. The sample for each week's OmniTel wave consists of 1,000 completed interviews, made up of male and female adults (in approximately equal number), all 18 years of age and over. Each OmniTel study is based on a random digit dialing (RDD) probability sample of all telephone households in the continental United States. The RDD sampling system is totally computer based and provides an equal probability of selection for each and every

the survey asks several questions relevant to (1) determining the appropriate balance between service and enforcement and (2) determining whether to reduce or eliminate face-to-face taxpayer service.

In response to the question, "How important is it to you, as a taxpayer, that the IRS provides each of the following services to assist taxpayers?", taxpayers stated a given service was very or somewhat important, as follows:

How important is it to you, as a taxpayer, that the IRS provides each of the following services to assist taxpayers?	Very Important + Somewhat Important/%		
	2004	2003	2002
A toll-free telephone number to answer your questions	92	91	90
Office locations you can visit where an IRS representative will answer your questions	90	89	85
A web site to provide you with information	85	84	80
A computer terminal located in a kiosk at a library or shopping mall	66	64	NA
A tax assistance van that visits locations not convenient to IRS offices to provide information and assistance	77	78	NA

When asked which services they would be somewhat likely or very likely to use, taxpayers provided the following responses:

How likely would you be to use each of the following services for help with a tax issue?	Very Likely + Somewhat Likely/%	
	2004	2003
A toll-free telephone number to answer your questions	82	81
Office locations you can visit within 30 minutes travel time where an IRS representative will answer your questions	68	72
Office locations you can visit within 30 to 60 minutes travel time where an IRS representative will answer your questions	49	50
A web site to provide you with information	72	72
A computer terminal located in a kiosk at a library or shopping mall	42	46
A tax assistance van that visits locations not convenient to IRS offices to provide information and assistance	51	57

telephone household. Thus, the sample represents telephone households with both listed and unlisted phones in their proper proportions.

Perhaps the most important indication that we have about how the taxpayers themselves want their tax administrators to proceed comes from the answers to Question 11 of the study. While 62 percent of taxpayers completely or mostly agree that the IRS should receive extra funding to enforce tax laws and ensure that taxpayers pay what they owe, 64 percent of taxpayers completely or mostly agree that the IRS should receive extra funding so it can assist more taxpayers over the phone and in person.

IX. Specific Steps for Closing the Tax Gap

At this committee's hearing on the tax gap in July 2004, Senator Baucus asked the Commissioner to develop a list of options to address the tax gap and asked that they be characterized as "most stringent," "most lenient," and "moderate."²⁴ In my 2004 Annual Report to Congress, I listed 24 steps that could address the tax gap, and without expressing an opinion about the wisdom of any particular item, I identified key benefits and burdens associated with each.

The full list is attached at the end of my written statement, but I will highlight a few of the key principles here.

A. Reduce Opportunities for Noncompliance

This principle is important for two reasons. First, by reducing opportunities for noncompliance, we will bring in more revenue with a minimal direct expenditure of IRS resources. Second, fewer taxpayers will get caught up in audits, requests for substantiation, and claims for interest and penalties. Audits are burdensome and frustrating for taxpayers, so everyone benefits if we can make the liability clear on the front end and avoid the need for compliance actions on the back end.

Since we know that the compliance rate is approximately 96 percent when payments are reported to the IRS, we should explore ways to ensure that a broader array of payments is subject to 1099 reporting. Moreover, since we know that compliance is nearly 100 percent when payments are subject to withholding, we should require withholding in limited circumstances. Withholding imposes significant burdens on the payor, so I am not advocating universal withholding. However, we should at least consider the feasibility of the following:

- Enter into voluntary withholding agreements under IRC § 3402(p)(3) with industries or trades that have established payor-payee mechanisms, *e.g.*, travel agencies and travel agents, or hair salons and stylists. The IRS, on a case-by-case basis, could agree to provide a safe harbor worker

²⁴ Finance Committee Hearing on Tax Gap Recorded in Unofficial Transcript, 2004 TNT 145-30, (Release Date: July 8, 2004) (Doc 2004-15394), (Q&A of Commissioner Mark W. Everson), 56.

classification where the payor enters into a voluntary withholding agreement.

- Actively encourage self-employed taxpayers to make monthly or even bi-weekly payments toward their estimated taxes through the Electronic Funds Transfer System (EFTS). Where a self-employed taxpayer has been noncompliant for several years running, the IRS could require that taxpayer to make these deposits and could monitor compliance with this requirement closely so as to intervene when the taxpayer misses a required payment. If the taxpayer consistently fails to make required payments, impose a back-up withholding requirement, as described below.
- Amend IRC § 3406 to require a form of "backup withholding" by the payor in cases where a taxpayer-payee has a demonstrated history of noncompliance with the tax laws.

B. Information Sharing with State and Local Governments

States and localities compile and maintain data that could significantly assist the IRS in collecting taxes due. For example, it is my experience that states are relatively aggressive in enforcing compliance with sales tax requirements. The IRS could verify gross receipts reported on Federal returns with gross receipts reported for state sales tax purposes. In other instances, taxpayers must report gross receipts in order to obtain a business license from the state or locality so that they may bid for contracts or otherwise conduct business in the jurisdiction. The IRS could use this data to validate income information reported to it by the taxpayer. This same approach could apply to data matching information about property tax records.

C. Local Compliance Planning Councils

The IRS should re-establish local Compliance Planning Councils that include representatives of both IRS enforcement and taxpayer service functions. The councils should develop specific compliance initiatives addressing local activities that represent the greatest share of the region's cash economy and other areas of local noncompliance. The Councils should partner with state and local tax authorities where appropriate.

D. IRS Forms Revisions

The IRS should revise Schedule C, Profit or Loss From Business (Sole Proprietorship), to include a line item showing the amount of self-employment income that was reported on Forms 1099-MISC. Anecdotal evidence suggests that many taxpayers only report income on their tax returns that was reported to the IRS on information-reporting documents. For example, suppose a plumber makes \$20,000 working for businesses and \$40,000 working for homeowners.

The law only requires the business clients to issue a Form 1099, and the plumber may feel comfortable reporting only the \$20,000 on his tax return. By simply breaking the “gross receipts” line on Schedule C into two lines – one for “gross receipts reported on Forms 1099” and one for “all other gross receipts,” we would send a message that other receipts are required to be reported, and the plumber would probably be inclined to put some number – even if not the full \$40,000 – on that second line. This simple step could bring in tens of millions, if not billions, of dollars in additional tax each year. To me, this proposal is a no-brainer.

The IRS also should require Schedule C taxpayers and all corporations and partnerships to answer two questions on their income tax returns:

- Did you make any payments over \$600 in the aggregate during the year to any unincorporated trade or business?
- If yes, did you file all required 1099 forms?

These two simple questions will alert uninformed taxpayers of their reporting obligations and enable them to comply. The questions will also alert taxpayers who are knowingly avoiding their reporting obligations that the IRS is looking at this issue and that there is some additional risk to continuing noncompliance.

E. Maintain a Vigorous IRS “Street Presence”

Presently, the IRS’s approach to self-employed taxpayer noncompliance is to increase correspondence examinations. Correspondence examinations alone will not find the type of unreported income that feeds the Tax Gap. The IRS must focus on face-to-face examinations conducted in the field in order to maintain a vigorous “street presence.” Revenue agents must probe for unreported income beyond the usual audit steps taken during the course of a correspondence examination.

Field examinations include a set of minimum income probes for all types of tax returns, in-depth examination techniques, and formal indirect methods of identifying unreported income. The IRS instructs field agents that the audit strategy for completing an examination of income must remain *dynamic* and consideration should be given to tax return information, responses to interview questions, the taxpayer’s books and records, and other financial information.²⁵ Dynamic audit strategies such as these allow agents to find and follow the money trail that leads to unreported income and are strategies that are not followed or not possible in conducting a correspondence examination.

The IRS also maintains a set of required filing checks for field examinations to ensure voluntary compliance of small business taxpayers. This includes checks

²⁵ Internal Revenue Manual 4.10.4.1(2).

of filing requirements of all Federal tax returns, such as employment tax returns and information reporting returns. Required filing checks conducted in the field often lead to an expansion of the audit to include additional years or returns of others.²⁶ These types of required filing checks are set aside in the correspondence exam environment, which focuses on a narrow set of issues.

F. Strengthen OIC program

According to the IRS's own research, we now know that the Offer-in-Compromise program brings noncompliant taxpayers back into compliance at almost the same rate (80 percent) as taxpayers overall (84 percent). That is, 80 percent of the taxpayers whose offers were accepted remained in compliance with their tax obligations over the five-year period following offer acceptance, as required by the terms of the offer.²⁷

This same study demonstrated that the IRS is leaving dollars on the table by returning, rejecting, or seeking withdrawal of offers for tax liabilities on which the Service later collects virtually nothing.²⁸ In RRA 98, Congress instructed the IRS to educate the taxpaying public about the availability of such agreements.²⁹ The IRS's data make clear that there is a strong case to be made for educating taxpayers about the Offer-in-Compromise program – it converts noncompliant taxpayers into compliant ones, and it brings in enforcement revenue that the IRS would not otherwise collect.

X. Transparency Should be a Goal of Fundamental Tax Reform

No discussion of the tax gap is complete without identifying complexity as a major driver of noncompliance. Tax law complexity provides grey areas and loopholes for taxpayers who are not trying to comply. Complexity also trips up taxpayers who are trying to comply – it is just too hard to figure out what the law requires, and honest efforts to comply can result in a “gotcha” situation.

As the Administration and Congress consider fundamental tax reform, I believe that simplifying the tax code should be an overriding goal. In writing the tax laws, Congress should consider how to reduce opportunities for noncompliance. If fewer opportunities exist for fudging, taxpayers will feel reassured that everyone

²⁶ Internal Revenue Manual 4.10.5.1(1)(2)

²⁷ *Id.*

²⁸ In a study that looked at a sample of offers closed in 1998 and subsequent collections through September 8, 2003, the IRS found that it ultimately collected less than 80 percent of what taxpayers were offering in more than half of the offers from individual taxpayers that it rejected or returned. It collected nothing on more than 20% of those offers. SB/SE Payment Compliance and Office of Program Evaluation and Risk Analysis (OPERA), IRS Offers in Compromise Program, Analysis of Various Aspects of the OIC Program, September 2004.

²⁹ IRS Restructuring and Reform Act of 1998, Pub. L. No. 105-206 (1998); H.R. Conf. Rep. 599, 105th Cong., 2d Sess., 288-289 (1998).

is paying their fair share, the job of the IRS will become easier, and taxpayers will be less likely to get into battles with the IRS that leave them soured on the tax system.

XI. Conclusion

The IRS faces significant challenges in the next few years as it attempts to increase taxpayer compliance. I believe the IRS is doing the right thing in targeting corporate tax shelters and high-end cheating in the short-term, but I believe that with two-thirds of the tax gap attributable to the self-employed, the IRS needs to develop a thoughtful and comprehensive strategy to address noncompliance in the cash economy. The strategy should consider not only direct revenue benefits but the indirect effects (*i.e.*, the multiplier) generated by IRS activity.

Among areas for consideration, IRS and Congress should reduce opportunities for noncompliance through increased information reporting and limited non-wage withholding, increase information sharing with state and local governments, develop targeted local initiatives, revise tax forms, and put IRS agents "on the street" to focus on industries that are particularly noncompliant. At the same time, the IRS should keep in mind that taxpayer service is central to maintaining and improving the compliance rate, and it should do more to study taxpayer needs, particularly with respect to face-to-face service, and to meet them.

To achieve these objectives, the IRS needs to do a better job of identifying and balancing both taxpayer needs and enforcement efforts. Rather than making resource-driven decisions that are based on inadequate research and that fail to identify equivalent alternatives, the IRS must develop a world-class research function that is the foundation for all of its customer service and enforcement activities. Research – and truly strategic planning – should inform the IRS's allocation of resources so that we achieve the maximum compliance possible by obtaining the optimal balance between service and enforcement.

Appendix I – Tax Gap Recommendations

PROBLEM

The IRS estimates that the annual gross tax gap (i.e., the amount of tax that is imposed by law for a given year but is not paid voluntarily) is about \$311 billion, and the annual net tax gap (i.e., the gross tax gap reduced by taxes eventually collected) is about \$255 billion.³⁰ The \$255 billion net tax gap results in an average annual “surtax” of nearly \$2,000 on each taxpayer. While increased IRS compliance activities can help to reduce this burden, such activities themselves have the potential to impair taxpayer rights and impose additional burdens on taxpayers.

At a hearing on the tax gap before the Senate Finance Committee in July 2004, the IRS Commissioner agreed, at ranking minority member Senator Max Baucus’ request, that he would present the Committee with three alternative plans for reducing the tax gap attributable to the cash economy – the most stringent, the most lenient, and the moderate – by March 31, 2005.³¹ In this report, the National Taxpayer Advocate presents a wide-ranging list of options for closing this and other portions of the tax gap. As noted above, while each possible approach has certain compliance benefits, each would also impose various levels of burden on taxpayers. By presenting this list and identifying the burdens as well as benefits, we hope that we will be of assistance to both Congress and the IRS as they work together to solve the challenging problems posed by the tax gap.³²

Addressing the Tax Gap: The Role of the Office of the Taxpayer Advocate

The National Taxpayer Advocate’s contribution to the discussion about the tax gap should focus on the impact it has on taxpayers in the aggregate and on taxpayers individually.

³⁰ The gross tax gap is the amount of tax imposed by law for a given tax year but not paid voluntarily and timely due to nonfiling, underreporting, and underpayment. The gross tax gap for tax year 2001 was an estimated \$311 billion, up from the estimate of \$283 billion in tax year 1998. The net tax gap is computed by subtracting late payments, which the IRS collects for years to come, from the gross tax gap. The IRS estimated the net tax gap at \$255 billion for tax year 2001 and \$233 billion for tax year 1998. IRS National Headquarters Office of Research, *Tax Gap Maps for 1998 and 2001* (July 17, 2003).

³¹ Finance Committee Hearing on Tax Gap Recorded in Unofficial Transcript, 2004 TNT 145-30, (Release Date: July 8, 2004) (Doc 2004-15394), (Q&A of Commissioner Mark W. Everson), 56.

³² Because we intend this particular Key Legislative Recommendation to be a comprehensive list of possible proposals, some items on the list would require Congressional action and some would require administrative action.

The Tax Gap and the Rights of Taxpayers as a Group

The mere fact that honest taxpayers are paying so much extra in taxes due to noncompliance constitutes an extraordinary abridgement of taxpayer rights and raises fundamental issues of fairness. Millions of wage-earning taxpayers, who are subject to income and payroll tax withholding, pay their taxes regularly and dutifully.³³ Moreover, millions of small business and self-employed taxpayers scrimp and save in order to pay their required quarterly estimated tax payments. Yet, because some taxpayers fail to report their income and are not subject to third party reporting or withholding, compliant taxpayers must foot the bill for others' noncompliance and, if they are small businesses, are placed at a competitive disadvantage. The National Taxpayer Advocate's role with respect to the tax gap and the rights of taxpayers as a whole, then, is to ensure that the IRS develops initiatives that address components of the tax gap that place a disproportionate tax burden on compliant taxpayers.

The Tax Gap and the Rights of Taxpayers as Individuals

Any new or enhanced enforcement initiative has the potential itself to abridge taxpayer rights. As we have discussed throughout this report, the IRS' enforcement initiatives impact not only those taxpayers who are noncompliant but also those who are compliant and who are trying to comply. For example, we may all agree that more third party reporting of income will have a positive impact on the compliance rate. Reasonable people can disagree, however, about the details of such a proposal. Which taxpayers should be subject to third party reporting? At what dollar threshold should third party reporting apply? Should third party reporting be expanded to cover services provided to individuals as well as businesses? Should third party reporting extend to goods as well as services provided? Each one of these proposals imposes a burden on the taxpayer that may be required to report the income as well as on the taxpayer earning the income.

Moreover, our analysis cannot just stop at the level of burden. We must look at each proposal from the perspective of taxpayer rights. For example, the IRS could easily increase the amount of dollars it assesses by seeking legislative authority to use IRC § 6213(b) math and clerical error procedures for any mismatch between income reported by third parties and that reported on the taxpayer's return. But such an approach would both undermine the deficiency process which is fundamental to our tax system (including the ability to go to Tax Court before paying a proposed tax assessment) and unfairly impact those taxpayers who, for whatever reason, cannot navigate the tax system well by themselves or obtain representation to help them. It would also result in lots of work for the IRS and taxpayers further along in the tax controversy process – in

³³ Where taxpayers are subject to a withholding at source requirement, their compliance rate is 99 percent. See Alan Plumley and C. Eugene Steuerle, "An Historical Look at the Mission of the IRS: What is the Balance between Revenue and Service," 4.

Collection Due Process hearings, in audit reconsideration, in the Taxpayer Advocate Service.

The National Taxpayer Advocate, then, must look at tax gap proposals from the perspective of affected taxpayers, to determine whether and what taxpayer rights are impacted. Among these rights are the following:

- The IRS must provide a fair and equitable justification for the disparate treatment of one group of taxpayers from another.
- The IRS must research and articulate the reasons for noncompliance and design an initiative that takes into account the characteristics of the targeted taxpayer population.
- The IRS must identify specific barriers to compliance, including the barriers that the IRS itself creates (such as extensive documentation requirements, inadequate access to face-to-face or other assistance) and address elimination or reduction of those barriers as part of the compliance initiative.
- The IRS must protect the confidentiality of taxpayer and tax return information under IRC § 6103, which is the bedrock of taxpayer confidence in our tax system.
- The IRS must ensure that taxpayers have the opportunity to request an administrative appeal of the IRS' enforcement action and that taxpayers are informed about and have access to the Taxpayer Advocate Service.
- The IRS must sufficiently test or pilot initiatives that have unknown or unquantifiable impact on taxpayers or unclear benefits to the tax system.

In addition to her day-to-day dealings with IRS program planners and leadership, the National Taxpayer Advocate has several vehicles to influence IRS enforcement initiatives. One is the Taxpayer Rights Impact Statement (TRIS).³⁴ The TRIS is an assessment of an IRS program or policy by the National Taxpayer Advocate with respect to its impact on taxpayer rights, preferably prior to program implementation. To date, the National Taxpayer Advocate has issued two Taxpayer Rights Impact Statements since she instituted this procedure in July 2004.

³⁴ The Taxpayer Rights Impact Statement is discussed in detail in the National Taxpayer Advocate's June 2004 Report to Congress. See National Taxpayer Advocate, *Fiscal Year 2005 Objectives Report to Congress*, Publication 4054 (Rev. 8-2004), 2-4.

A second vehicle for discussing the impact of IRS enforcement initiatives on taxpayer rights is the Annual Report to Congress under IRC § 7803(c). Thus, in this and previous reports, we have discussed in detail several IRS practices that we believe unduly impact taxpayer rights.³⁵ In the context of the tax gap, we here identify not only possible solutions to the tax gap, particularly with respect to the cash economy, but also the taxpayer rights that such solutions may impair.

Components of the Tax Gap

As noted earlier, the IRS estimates that the annual gross tax gap is approximately \$311 billion and the annual net tax gap is about \$255 billion.³⁶ The tax gap consists of several different components – nonfiling (\$30.1 billion), underreporting (\$248.8 billion), and nonpayment (\$31.8 billion). Some of these estimates are more “squishy” than others. For example, the IRS can accurately quantify the amount of tax due on filed returns that has not been paid. On the other hand, it is difficult to estimate with certainty the under-reporting component of the tax gap, since most of its subcomponents are dated. Rigorous research initiatives such as the National Research Program can, of course, improve the accuracy of IRS estimates, particularly in the area of underreported income.

There are two aspects to underreported income: income receipts may be underreported, or deductions, expenses, and tax credits may be overreported. Each of these problems may require different mitigating strategies. Moreover, within each tax gap component, there are different types of taxpayers. Large corporate taxpayers may respond to one type of compliance initiative, which would be completely ineffective if applied to small businesses or the self-employed. High profile investigations of wealthy taxpayer/investors may be a sufficient deterrent to abuse by other high income taxpayers, but education and outreach may be more effective with low income taxpayers.

The single largest component of the tax gap is underreported business income by individuals. Based on the most current IRS data available, \$132 billion – or 42.5 percent – of the \$310 billion gross tax gap for 2001 was attributable to the underreporting of business income by individuals.³⁷ This underreporting

³⁵ See, e.g., our discussion of Offers-in-Compromise, Collection Due Process hearings, and Independence of the Office of Appeals, *infra*; our discussion of Combination Letters in the 2003 Annual Report to Congress; and our discussion of Math Error Authority in the 2002 Annual Report to Congress.

³⁶ See IRS National Headquarters Office of Research, Tax Gap Map for Year 2001 (Feb. 24, 2004). Note that tax gap information from 2001 is the most recent IRS tax gap data available. In 2005, the IRS will have updated tax gap data from the National Research Program (NRP). The NRP is a comprehensive cross-functional effort by the IRS to measure reporting, filing, and payment compliance for different types of taxes and different groups of taxpayers.

³⁷ IRS National Headquarters Office of Research, Tax Gap Map for Year 2001 (Feb. 24, 2004). Individual business underreporting has two components – underreporting of actual business receipts and overreporting of business expenses.

contributed \$81 billion to the individual income tax gap and \$51 billion to the employment tax gap.³⁸ At a recent hearing on the tax gap held by the Senate Finance Committee, virtually all witnesses agreed that the “cash economy,” including sole proprietors, was the biggest category of noncompliance contributing to the tax gap.³⁹

A Word About the Cash Economy

For purposes of this report, the “cash economy” refers to cash compensation (including checks) that is not subject to third-party information reporting.⁴⁰ We do not use the term to refer to income from an illegal enterprise. In general, the cash economy involves small (even one-person) rather than large enterprises.⁴¹ It also includes individuals who have non-tax reasons for not reporting income, such as undocumented workers or recipients of means-tested government benefits.

As the witnesses at the Senate hearing noted, no one approach will completely address the tax gap attributable to the cash economy. Most of the witnesses advocated for expanding third-party income reporting, utilization of locally-based data sources such as property tax records and professional or business licenses, and audits designed for a maximum indirect as well as direct effect. Both the Acting Treasury Inspector General for Tax Administration and the General Accountability Office reiterated their support for expansion of third-party withholding on certain payments to self-employed persons.

In her 2003 Annual Report to Congress, the National Taxpayer Advocate listed the Federal tax gap attributable to nonfiling and underreporting by self-employed taxpayers as the second most serious taxpayer problem.⁴² Based on the most current IRS data available, self-employed taxpayers accounted for approximately 67 percent of the federal income tax gap and approximately 77 percent of the federal employment tax gap.⁴³ To be effective, any strategy to reduce the tax gap will have to address noncompliance by this segment of the taxpayer population.

³⁸ *Id.*

³⁹ Finance Committee Hearing on Tax Gap Recorded in Unofficial Transcript, 2004 TNT 145-30, (July 8, 2004) (Doc 2004-15394). The assenting witnesses included the Commissioner of Internal Revenue, the Acting Treasury Inspector General for Tax Administration, the Director of Strategic Issues for the Government Accountability Office (GAO), a member of the IRS Oversight Board, Professor Joseph Bankman of Stanford Law School, and the National Taxpayer Advocate.

⁴⁰ See Finance Committee Hearing on Tax Gap Recorded in Unofficial Transcript, 2004 TNT 145-30, (July 8, 2004) (Doc 2004-15394), (Q&A of Professor Joseph Bankman) 24.

⁴¹ *Id.*

⁴² National Taxpayer Advocate, *Annual Report to Congress*, Publication 2104 (Rev. 12-2003), 20.

⁴³ IRS National Headquarters Office of Research (unpublished projections furnished for TY 2001.)

Options for Closing the Tax Gap: Benefit and Burden Analysis

Table 2.8.1 presents some ideas for closing the tax gap. We have divided these ideas into two categories: options that would reduce opportunities for noncompliance, and options that would require the IRS to undertake specific enforcement initiatives. We have also attempted to identify the primary benefits and burdens with respect to each option. Finally, we have applied the approach suggested at the July 2004 Tax Gap Hearing, by labeling each initiative as Most Intrusive (MI), Somewhat Intrusive (SI), and Least Intrusive (LI).

TABLE 2.8.1, TAX GAP REDUCTION OPTIONS

General Options	Specific Options	Level of Intrusiveness	Possible Benefits	Possible Burdens
Increased Form 1099-MISC	Increase the Penalty for failing to issue a required Form 1099-MISC (currently the penalty is \$50 per return). ⁴⁴	SI MI	Increased Form 1099-MISC reporting would reduce some income that currently escapes information reporting (sometimes referred to as the "cash economy".)	Increased 1099-MISC reporting would impose additional burdens on service-recipients that would be required to process and file more paperwork to comply with any additional compliance.
	Reduce or eliminate the \$600 per year threshold for requiring a service recipient to issue a Form 1099-MISC. ⁴⁶	MI		
	Reduce or eliminate the \$5,000 per year threshold for requiring a Form 1099-MISC to be filed in the case of a direct seller. ⁴⁷	LI	Increased information reporting results in higher compliance. ⁴⁵	Eliminating the "trade or business" requirement for issuing a Form 1099-MISC would impose a new burden on non-business service-recipients, requiring individuals to file information returns on payments for such items as home repairs and yard care.
	Require Forms 1099-MISC to be issued to incorporated service providers. ⁴⁸	SI		
	Eliminate the "trade or business" requirement for issuing a Form 1099-MISC, but also introduce a high dollar threshold for requiring a service recipient to issue a Form 1099 for non trade or business payments. ⁴⁹	MI		

⁴⁴ Up to a maximum of \$250,000 per year. IRC § 6721(a).

⁴⁵ See Alan Plumley and C. Eugene Steuerle, "An Historical Look at the Mission of the IRS: What is the Balance between Revenue and Service," 4. See also, Most Serious Problem, IRS Examination Strategy, *supra*.

⁴⁶ See IRC § 6041A(a)(2).

⁴⁷ See IRC § 6041A(b).

⁴⁸ Incorporated service providers are currently exempt from Form 1099-MISC reporting in most cases. See Treas. Reg. § 1.6041-3(p)(1).

⁴⁹ See IRC § 6041A(a)(1).

TABLE 2.8.1, TAX GAP REDUCTION OPTIONS

General Options	Specific Options	Level of Intrusiveness	Possible Benefits	Possible Burdens
Non-Wage Withholding	Require withholding on all payments to service providers that are currently subject to Form 1099-MISC reporting. ⁵⁰	MI	Nearly 100 percent of income subject to with-holding is reported. ⁵¹	Withholding on current Form 1099-MISC payments would effectively impose employment tax compliance requirements on service recipients for payments to non-employees. Withholding on current Form 1099 MISC payments would require both independent contractors and service recipients to calculate profit margins to estimate the applicable withholding rate. This could impose significant administrative burdens on service
	Require withholding on all payments to service providers that are currently subject to Form 1099-MISC reporting, and specify that service providers that fail to withhold under this requirement are subject to the Federal Trust Fund Recovery Penalty. ⁵³	MI		

⁵⁰ See National Taxpayer Advocate, *Annual Report to Congress*, Publication 2104 (Rev. 12-2003) 256-269, where this proposal is explained in detail. Several other Federal agencies have also recommended non-wage withholding: see Hearings on H.R. 3245, The Independent Contractor Tax Status Clarification Act of 1979, before the Subcommittee on Select Revenue Measures of the Committee on Ways and Means, House of Representatives, 96th Cong. 11 (1979) (statement of Donald C. Lubick, Assistant Secretary of the Treasury for Tax Policy); Hearing on Compliance Problems of Independent Contractors, GAO-109909, before the Subcommittee on Select Revenue Measures, House Committee on Ways and Means, 96th Cong. 7 (1979) (statement of Richard L. Fogel, Associate Director, General Government Division, General Accounting Office); GAO Report to Congressional Requesters, *Tax Administration, Approaches for Improving Federal Contractor Compliance*, GAO/GGD-92-108, 4 (July 1992), General Accounting Office, *Tax Gap: Many Actions Taken, but a Cohesive Compliance Strategy Needed*, GAO/GGD-94-123, 37 (May 11, 1994); GAO Report to the Chairman, Subcommittee on Oversight, Committee on Ways and Means, House of Representatives, *Tax Administration: Tax Compliance of Nonwage Earners*, GAO/General Government Division, GGD-96-165, 12 (August 1996); Treasury Inspector General for Tax Administration, *Significant Tax Revenue May be Lost Due to Inaccurate Reporting of Taxpayer Identification Numbers for Independent Contractors*, Reference No. 2001-30-132, ii (Aug. 2001) see also, *Finance Committee Hearing on Tax Gap Recorded in Unofficial Transcript*, 2004 T.N.T. 145-30, July 28, 2004 (Statement of Pamela J. Gardiner, Acting Inspector General, Treasury Inspector General for Tax Administration), and Q&A of Mike Brostek, Director Strategic Issues, Government Accountability Office.

⁵¹ See Alan Plumley and C. Eugene Steuerle, "An Historical Look at the Mission of the IRS: What is the Balance between Revenue and Service," 4. See also, Most Serious Problem, IRS Examination Strategy, *supra*.

General Options	Specific Options	Level of Intrusiveness	Possible Benefits	Possible Burdens
	Encourage service recipients and independent contractors to enter into voluntary withholding agreements.	LI		recipients that use independent contractors for various kinds of work. It could also impose significant burdens on independent contractors that operate at narrow profit margins. ⁵²
	Provide tax or reduced compliance incentives for service recipients that enter into voluntary withholding agreements with independent contractors.	LI		

⁵² See generally, Russell A. Holrah, Home Care Representative Opposes NTA's Plan to Target Underreporting by Self-Employed, 2004 T.N.T. 73-37, March 22, 2004.

⁵³ See IRC § 6672. See also Key Legislative Recommendation, Small Business Burden Reduction, Protection from Payroll Service Misappropriation, *supra*.

TABLE 2.8.1, TAX GAP REDUCTION OPTIONS

General Options	Specific Options	Level of Intrusiveness	Possible Benefits	Possible Burdens
Increased Backup Withholding	Institute "real time" Taxpayer Identification Number (TIN) verification for service recipients and institute immediate backup withholding on those with invalid TINs.	SI	Expanding the current backup withholding provisions ⁵⁴ to target specific noncompliance would be less burdensome than general non-wage withholding.	"Real time" TIN verification presents taxpayer information confidentiality concerns. ⁵⁵ Withholding targeted at noncompliant service providers would still place compliance burdens on the service-recipients that use these service providers.
	Require immediate backup withholding on individual service providers who have demonstrated a history on noncompliance.	SI	Nearly 100 percent of income subject to withholding is reported.	Establishing standards for "demonstrated noncompliance" for both individuals and specific industries could be difficult.
	Require immediate backup withholding in specific service industries that have demonstrated a history of noncompliance.	SI		

⁵⁴ See IRC § 3406.

⁵⁵ See IRC § 6103.

TABLE 2.8.1, TAX GAP REDUCTION OPTIONS

General Options	Specific Options	Level of Intrusiveness	Possible Benefits	Possible Burdens
Increased Frequency of Estimated Tax Payments	Mandatory Increase	SI	More frequent payments would reduce the likelihood of a self-employed taxpayer expending funds earmarked for taxes on other business or personal expenses and consequently falling out of compliance. ⁵⁶	More frequent payments would increase self-employed paperwork and compliance burdens. More frequent payments could impose cash flow constraints on self-employed taxpayers that operate at narrow profit margins.
	Voluntary Increase.	LI		
Voluntary Electronic Estimated Tax Payments	Provide system to allow self-employed taxpayers to electronically submit estimated taxes.	LI	Reduces paperwork and compliance burdens associated with nonelectronic payments. Provides a simple means for on-time estimated tax payments, reducing the likelihood of a self-employed taxpayer expending funds earmarked for taxes on other business or personal expenses and consequently falling out of compliance.	Minimal, if any, taxpayer burden.
	Provide system that would allow the IRS to automatically withdraw estimated taxes from a self-employed taxpayer's business checking account. Self-employed taxpayers could participate in this system voluntarily. ⁵⁷	LI		

⁵⁶ Valerie Chambers, Evidence of Significant Excess Intangible Utility of Increased Intertemporal Payments over Financial Investment Gain Opportunity in a Tax Budgeting Situation (unpublished paper, on file with the National Taxpayer Advocate), see also, Finance Committee Hearing on Tax Gap Recorded in Unofficial Transcript, 2004 T.N.T. 145-30, July 28, 2004 (Statement of Pamela J. Gardiner, Acting Inspector General, Treasury Inspector General for Tax Administration).

⁵⁷ This system could be expanded to impose mandatory withholding through a self-employed taxpayer's business checking account if that taxpayer had demonstrated a history of noncompliance.

TABLE 2.8.1, TAX GAP REDUCTION OPTIONS

General Options	Specific Options	Level of Intrusiveness	Possible Benefits	Possible Burdens
IRS Audit and Exam Initiatives	Increase "Required Filing Checks" (a.k.a., package audits). Required Filing Checks are part of an IRS field audit and require the IRS agent(s) to examine the records of a business taxpayer to determine such things as whether the taxpayer has filed all required returns – including information returns, if it has submitted questionable Forms W-4, and if it is a "cash business" that may be subject to additional scrutiny. ⁵⁸	SI	Increased enforcement increases both direct and indirect compliance. ⁵⁹ Increased IRS and taxpayer focus on gross receipt sources and Form 1099-MISC reporting. Compliance would increase directly for those taxpayers selected for audits, both for the tax years at issue and for future years.	Taxpayers selected for audits would need to go through IRS examination procedures. Concerns that taxpayers affected by local and national compliance initiatives and receiving disparate treatment compared to non-affected taxpayers.
	Implement local audit initiatives that are focused on income reporting for specific groups of taxpayers with demonstrated histories of noncompliance (for example, contractors in a particular city). ⁶⁰	SI		

⁵⁸ See IRM 4.10.5 (July 13, 2001). On June 27, 2003, the Deputy Director of Compliance Policy for the IRS SB/SE division issued a memorandum limiting the scope of Required Filing Checks by eliminating information return and employment tax return reconciliations and mandatory inspections for questionable Forms W-4. The procedures set forth in this memorandum were to expire on April 15, 2004, but no memorandum to that effect has been issued. Memorandum from SB/SE Deputy Directory, Compliance Policy re Required Filing Checks (package audit) – IRM 4.10.5, June 27, 2003.

⁵⁹ See Most Serious Problem, Examination Strategy, *supra*.

General Options	Specific Options	Level of Intrusiveness	Possible Benefits	Possible Burdens
	Implement industry segment compliance initiatives (including, audits, research, education and outreach, and other compliance initiatives) aimed at increasing voluntary compliance within specific market and industry segments nationwide. ⁶¹	SI	Compliance would increase indirectly as word of these audits spread throughout the respective industries and communities.	
	Fully utilize IRS Financial Status Analysis and Financial Status Audit techniques to the extent permitted by IRC §7602(e). These techniques seek to identify unreported income by analyzing a taxpayer's cash flows to estimate whether there are sufficient funds to cover the taxpayer's expenses. ⁶²	SI	Outreach, education and research efforts would increase voluntary compliance in selected local areas and market and industry segments.	

⁶⁰ See also discussion in Most Serious Problem, Examination Strategy, *supra*.

⁶¹ These initiatives could be structured to fit within the IRS' Compliance Initiative Projects program. See IRM 4.17.1 (Feb. 1, 2004).

⁶² IRM 4.10.4.3.3.1 and IRM 4.10.4.6.1 (June 1, 2004). IRC § 7602(e) limits financial status or economic reality examination techniques to cases where the IRS has a reasonable indication that there is a likelihood of unreported income. The IRM Financial Status Analysis procedures are designed to determine whether such a reasonable indication exists to permit the IRS to implement its Financial Status Audit procedures.

TABLE 2.8.1, TAX GAP REDUCTION OPTIONS

General Options	Specific Options	Level of Intrusiveness	Possible Benefits	Possible Burdens
IRS Forms Revisions	Revise Form 1040, Schedule C, to include a line item showing the amount of self-employment income that was reported on Forms 1099-MISC.	LI	Receiving specific Form 1099-MISC income information would allow the IRS to better track self-employment income sources and develop measures to reduce the cash economy.	Minimal recordkeeping burden.
	Supplement Form 1099-MISC with a required statement that the issuer must sign, under penalties of perjury, declaring that all required Forms 1099-MISC have been issued for the tax year. ⁶³	LI	Specifically requiring Form 1099-MISC income to be separately reported would increase the likelihood that taxpayers would report such income and also increase tax-payer awareness of income sources that should be re-reported on Forms 1099-MISC. A "penalties of perjury" statement would make issuers aware of the significance of the Form 1099-MISC requirements and increase awareness that the IRS is actively monitoring accurate Form 1099-MISC compliance and reporting.	

⁶³ Only one statement would be required per issuer per year. In other words, a Form 1099-MISC issuer would not be required to sign a statement for each Form issued.

TABLE 2.8.1, TAX GAP REDUCTION OPTIONS

General Options	Specific Options	Level of Intrusiveness	Possible Benefits	Possible Burdens
Information Sharing Initiatives	Establish local Compliance Planning Councils, involving the IRS (including both compliance and noncompliance division chiefs and local research offices) and state and local taxing authorities, that would focus on improving self-employed and cash economy compliance in their respective areas. ⁶⁴	LI	Self-employed noncompliance and the cash economy affect all levels of government. Information sharing and partnering efforts will allow all government participants to enhance compliance in these areas. ⁶⁵	Minimal, if any, taxpayer burden.
	Information sharing between the IRS and state and local taxing, compliance and licensing authorities. These sharing efforts could involve such information as business licenses and property tax records. ⁶⁶	LI		

⁶⁴ See also Most Serious Problem, IRS Examination Strategy, *supra*.

⁶⁵ See Finance Committee Hearing on Tax Gap Recorded in Unofficial Transcript, 2004 T.N.T. 145-30, July 28, 2004 (Statement of Joseph Bankman, Ralph M. Parsons Professor of Law and Business, Stanford Law School).

⁶⁶ See Testimony of Nina E. Olson, National Taxpayer Advocate, Hearing on Bridging the Tax Gap before the Senate Committee on Finance, July 21, 2004, 10.



MAY 9 2005

National Taxpayer Advocate

Committee on Finance
United States Senate
Washington, D.C. 20510

I am writing in response to Chairman Grassley's letter dated April 19, 2005, which requested that I answer certain questions for the record relating to the Committee's April 14, 2005, hearing on the tax gap. The questions, and my responses, follow.

Question 1: What impact do you foresee for your office from the increase in enforcement initiatives by the Commissioner?

I anticipate that the increase in enforcement initiatives will affect the Office of the Taxpayer Advocate in several respects:

First, the IRS's increased enforcement initiatives are already affecting the case inventory of the Taxpayer Advocate Service (TAS). TAS case receipts rose by 15 percent during the first six months of FY 2005 compared to the same period last year. Moreover, I expect the number of enforcement cases handled by TAS will continue to increase. Historically, a certain percentage of IRS examination and collection actions end up in TAS. For example, historical data indicates that approximately one percent of IRS Tax Delinquent Account (TDA) closures result in TAS cases. Thus, if the IRS increases the number of its TDA closures by 23 percent, or 367,000 closures, as it projects from FY 2004 through FY 2007, TAS receipts would increase by about 3,600 cases. Moreover, for the first six months of FY 2005, TAS case receipts involving liens have increased by 34.4 percent and TAS case receipts involving levies have increased by 24.1 percent over the same period last year. As the IRS becomes more aggressive in its enforcement policies and initiatives, and as it seeks to realize economies in processes and resources, TAS's work on systemic issues and protection of taxpayer rights will also increase.

Second, I anticipate that TAS will be asked to provide more taxpayer service to fill needs that arise as a result of IRS cuts in that area. To illustrate, IRS

The Office of the Taxpayer Advocate operates independently of any other IRS Office and reports directly to Congress through the National Taxpayer Advocate.

Taxpayer Assistance Centers (TACs) last year stopped issuing transcripts to taxpayers. For the first six months of FY 2005, TAS cases involving requests for copies of tax returns and account transcripts have consequently increased by 58.4 percent as compared with the same period last year. TAS offices that are co-located with TACs subject to closure are particularly likely to see an upsurge in taxpayer requests as taxpayers seeking face-to-face assistance from IRS employees come to TAS instead. In fact, TAS cases resulting from referrals from TACs increased by 29.7 percent for the first six months of FY 2005 over the same period last year due to reduced TAC hours and reduced scope of services. TAS was never intended to become a "shadow IRS," but it may be forced to take over heretofore core IRS functions by default since these cases meet the IRC § 7811 definition of "significant hardship." Unless we turn away taxpayers who require assistance, however, we will increasingly be handling cases that other IRS functions have handled in the past. This situation constitutes a significant deviation from TAS's statutory mission, which is to help taxpayers resolve problems with the IRS and to propose administrative and legislative solutions to mitigate those problems. It is not TAS's role to provide core IRS services.

Third, I am concerned that TAS will not have adequate resources to fulfill its statutory mission. TAS generally handles cases only when either a taxpayer faces a threat of imminent economic hardship or a taxpayer has been unable to resolve a problem through normal IRS channels. Many of our cases are referred by congressional offices and can be quite complex. During FY 2004, the median cycle time for our cases was 46 days, and our performance under IRS quality measures exceeded 90 percent. During FY 2005, TAS's staffing is projected to decline by 8 percent due to budget constraints, and we anticipate further budget reductions in FY 2006. I am concerned that we will not be able to maintain our high levels of timeliness and quality in the face of the combination of double-digit case growth and TAS staffing reductions. Since TAS often provides the last opportunity for taxpayers to resolve their problems with the IRS, these declines will impact significantly both taxpayer service and taxpayer rights.

Fourth, I am concerned about the way the IRS leadership is classifying TAS for budget purposes and the impact of this classification on TAS. Ninety-eight percent of the IRS budget is currently divided into three appropriations – Tax Law Enforcement (TLE), Processing, Assistance, and Management (PAM), and Information Systems (IS). Under these existing categories, 85 percent of TAS's funding is classified as Tax Law Enforcement.

For FY 2006, the IRS is proposing to combine the TLE, PAM and IS appropriations into a single appropriation labeled Tax Administration and

Operations (TAO). TAO, in turn, would be subdivided into two major categories – enforcement and taxpayer service. The budget proposes to increase spending on enforcement activities by eight percent to \$6.9 billion and to reduce spending on taxpayer service by one percent to \$3.6 billion.

Not surprisingly, the proposed division of the budget into two categories has triggered internal budget competition. Since the overall budget proposes to increase the enforcement category by eight percent and reduce the taxpayer service category by one percent, operating divisions and functions benefit from getting as much of their programming as possible placed into the “favored” enforcement bucket. Although decisions are not yet final, the proposed budget approach seems to lead to some questionable results.

We have been told that more than 90 percent of FY 2006 funding for the Office of Appeals and the Office of Chief Counsel will be allocated to enforcement. By contrast, we have been told that zero percent of the funding for the Taxpayer Advocate Service (TAS) will be allocated to enforcement – indeed, that TAS will be the only function in the IRS allocated entirely to taxpayer service. I see little principled basis for this disparate treatment. Take the case of Appeals. Appeals exists to give taxpayers the opportunity to receive an independent review of an adverse examination or collection decision at the administrative level. Like TAS, Appeals is supposed to render judgments that are independent of any core IRS position.¹ So why would IRS place more than 90 percent of Appeals’ budget into the favored “enforcement” bucket yet treat TAS as 100 percent taxpayer service? Despite our requests for clarification, the IRS to date has provided no reasonable explanation. The intended treatment of TAS is particularly difficult to understand in light of the facts that 85 percent of TAS’s funding currently comes from the Tax Law Enforcement (TLE) appropriation and fully two-thirds of TAS’s cases are enforcement-related (i.e., cases where taxpayers seek help from TAS as a result of IRS examination, collection, or criminal investigation actions).

¹ Internal Revenue Service Restructuring and Reform Act of 1998, Pub L. No. 105-206 § 1001(a)(4) (requiring the Commissioner to develop a reorganization plan that would “ensure an independent appeals function, including the prohibition in the plan of ex parte communications between appeals officers and other Internal Revenue Service employees to the extent that such communications appear to compromise the independence of the appeals officers”). Indeed, the mission of the IRS Appeals division is to “resolve tax controversies, without litigation, on a basis which is fair and impartial to both the government and the taxpayer and in a manner that will enhance voluntary compliance and public confidence in the integrity and efficiency of the Service.” IRM 8.1.1(2) (Feb. 1, 2003) (emphasis added).

Question 2: Are you concerned with the Commissioner's cuts of Taxpayer Assistance Centers? Were you consulted?

The IRS is planning to close a significant number of its approximately 400 walk-in sites (also called "Taxpayer Assistance Centers" or "TACs"). The estimated savings are approximately \$50 million. To date, the IRS has not identified alternative means to assist taxpayers who require face-to-face assistance. This is unfortunate since taxpayers will continue to seek the assistance they require. As noted above, TAS and other IRS offices co-located with TACs subject to closure are particularly likely to see an upsurge in taxpayer requests for assistance.

In a tax system with 130 million individual taxpayers, there is no one-size-fits-all solution to any problem. Some taxpayers strongly prefer – or, depending on personal limitations, may even require – face-to-face contacts, some need telephone contacts, and some prefer to interact with the IRS electronically. A significant study released last year by the Pew Internet and American Life Project examined how Americans communicate with the government. Generally, the study found that most Americans prefer to communicate with the government orally (either by phone or in person), rather than by letter or over the Internet. Notably, fully 20 percent of Americans reported that their most recent contact with the government was in person. In a few states, the IRS has experimented with using mobile vans to cover a greater number of areas. For example, the van might move weekly among five locations in a state. It could show up at a local library in a town every Monday, for example, and visit other cities on other days of the week. A mobile van would not be as convenient for taxpayers as a fixed office that is open daily, but if the IRS is planning to close a significant number of offices, it should at a minimum consider whether an approach like this might allow the IRS to remain accessible at a much lower cost.

The IRS has developed a model incorporating many factors to help it determine which TACs to close. I applaud the serious effort that went into creating this model over a very short period of time – a matter of months. Built using demographic and other taxpayer data, the model provides an excellent initial filter for an analysis of TAC closures. In my view, however, this model is inadequate for projecting the impact of TAC closures on taxpayers. The IRS should supplement this model with a comprehensive survey of taxpayers' need for face-to-face service. The model's reliance on TAC usage over the last few years, as a proxy for taxpayer need, is inadequate since the IRS has reduced the services provided in TACs over that period due to resource concerns. Moreover, the IRS's expectation that VITA programs will pick up the local TAC workload is simply not realistic. VITA sites are already stretched thin providing current levels

of tax return preparation services, and in any event, they do not provide the many other services that taxpayers are able to obtain from TACs.

The speed with which the IRS is making decisions of such momentous import to taxpayer service, and the lack of stakeholder engagement, is of great concern to me. I was briefed on this model on March 22nd of this year, too late to have any but the most trivial influence on its development. It is my understanding that the IRS consulted the Internal Revenue Service Advisory Committee (IRSAC) with respect to the weighting of factors used to determine closings. However, the IRS did not consult the Taxpayer Advocacy Panel (TAP), a Treasury panel of volunteer taxpayers specifically chartered under the Federal Advisory Committee Act to advise the IRS on matters pertaining to customer service. Nor did the IRS seek comments or suggestions from the Low Income Taxpayer Clinics funded by the IRS under IRC § 7526, which presumably represent the interests of the portion of the taxpayer population that is disproportionately affected by these closings.

In light of the lack of any taxpayer-centric assessment of the need for face-to-face service, any accurate measure of the impact of TAC closings on compliance, any significant engagement with stakeholders, or any identification of alternative methods for providing face-to-face service, I believe that closing Taxpayer Assistance Centers at this time will irrevocably harm taxpayers.

Question 3: A study on Offers in Compromise revealed that, where offers are accepted, taxpayers are compliant for the next five years at almost the same rate as all other taxpayers. That is a pretty remarkable statistic, because 100% of taxpayers submitting offers are, by definition, noncompliant at the outset.

- a. **Do you believe that the IRS's approach toward offer acceptance results in more or less tax dollars collected? Specifically would revenue collected and compliance increase if the IRS were more open to accepting offers in compromise?**

Appropriate revisions to the IRS approach to evaluating offers in compromise, as I discussed in my 2004 Annual Report to Congress, would increase revenues collected and bring more taxpayers back into compliance.² IRS's own research shows that for more than half of the offers from individual taxpayers that it rejected or returned, it eventually collected less than 80 percent of what

² National Taxpayer Advocate 2004 Annual Report to Congress 311-341 (describing problems in the offer-in-compromise program) and 433-450 (proposing a legislative recommendation to mitigate some of the problems).

taxpayers were offering, and it collected nothing in more than 20 percent of those cases.³ The same study also shows that 80 percent of the taxpayers whose offers were accepted remained in compliance with their tax obligations over the five-year period following offer acceptance, as required by the terms of the offer. Thus, the offer in compromise program converts noncompliant taxpayers into compliant ones and brings in enforcement revenue that the IRS would not otherwise collect.

b. Is the IRS going to use its authority under the Effective Tax Administration provision for offers in compromise?

In 1998, Congress authorized the IRS to compromise tax debts based upon factors such as equity, public policy and hardship in cases where doing so would promote the effective administration of the tax laws (ETA offers). However, the IRS has interpreted the congressional authorization so narrowly that, for example, the IRS group charged with evaluating such offers accepted only a single ETA offer based upon equity or public policy in FY 2004. We believe that the IRS' reluctance to compromise in inequitable situations may lead taxpayers to disregard the law or erode their faith in the fairness of the income tax system. As I described in my 2004 Annual Report to Congress, I am not confident that the IRS will, on its own, use its ETA authority in the manner I believe Congress intended. I therefore recommend that Congress provide more specific guidance to the IRS to ensure that a new "equitable consideration" standard be applied in a broader array of cases.⁴

Sincerely,



Nina E. Olson
National Taxpayer Advocate

³ SB/SE Payment Compliance and Office of Program Evaluation and Risk Analysis (OPERA), IRS Offers in Compromise Program, Analysis of Various Aspects of the OIC Program (September 2004).

⁴ For more detail, see National Taxpayer Advocate 2004 Annual Report to Congress 433-450.

United States Government Accountability Office

GAO

Testimony

Before the Committee on Finance, U.S. Senate

For Release on Delivery
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TAX COMPLIANCE

Reducing the Tax Gap Can Contribute to Fiscal Sustainability but Will Require a Variety of Strategies

Statement of David M. Walker
Comptroller General of the United States



April 14, 2005

TAX COMPLIANCE

Reducing the Tax Gap Can Contribute to Fiscal Sustainability but Will Require a Variety of Strategies



Highlights of GAO-05-527T, a testimony to the Committee on Finance, U.S. Senate

Why GAO Did This Study

The Internal Revenue Service's (IRS) recent estimate of the difference between what taxpayers timely and accurately paid in taxes and what they owed ranged from \$312 billion to \$353 billion for tax year 2001. IRS estimates it will eventually recover some of this tax gap, resulting in a net tax gap from \$257 billion to \$298 billion. The tax gap arises when taxpayers fail to comply with the tax laws by underreporting tax liabilities on tax returns; underpaying taxes due from filed returns; or "nonfiling," which refers to the failure to file a required tax return altogether or in a timely manner.

The Chairman and Ranking Minority Member of the Senate Committee on Finance asked GAO to review a number of issues related to the tax gap. This testimony will address GAO's long-standing concerns regarding tax compliance; IRS's efforts to ensure compliance; and the significance of reducing the tax gap, including some steps that may assist with this challenging task. For context, this testimony will also address GAO's most recent simulations of the long-term fiscal outlook and the need for a fundamental reexamination of major spending and tax policies and priorities.

What GAO Recommends

GAO is not making any new recommendations but discusses some past recommendations and highlights some new areas for possible attention.

www.gao.gov/cgi-bin/getrpt?GAO-05-527T

To view the full product, including the scope and methodology, click on the link above. For more information, contact Michael Brostek on (202) 512-9110 or brostekm@gao.gov.

What GAO Found

Our nation's fiscal policy is on an unsustainable course. As long-term budget simulations by GAO, the Congressional Budget Office, and others show, over the long term we face a large and growing structural deficit due primarily to known demographic trends and rising health care costs. All simulations indicate that the long-term fiscal challenge is too big to be solved by economic growth alone or by making modest changes to existing spending and tax policies. Rather, a fundamental reexamination of major policies and priorities will be important to recapture our fiscal flexibility. Especially relevant to this committee will be deciding whether and how to change current tax policies and how to ensure that tax compliance is as high as practically possible. Tax law enforcement is one factor affecting compliance that has caused concern in the past, due in part to declines in IRS enforcement occupations, examinations, and other enforcement results. The recent turnaround in staffing and some enforcement results is good news, but IRS's recent compliance estimate indicates that compliance levels have not improved and may be worse than it originally estimated. Thus, sustained progress in improving compliance is needed.

Reducing the tax gap would help improve fiscal sustainability, but will be challenging given persistent noncompliance. This task will not likely be achieved through a single solution. Rather, the tax gap must be attacked on multiple fronts and with multiple strategies over a sustained period of time, including reducing tax code complexity, providing quality services to taxpayers, enhancing enforcement of tax laws, and evaluating the success of IRS's efforts to promote compliance. Also important is obtaining current information on the extent of, and reasons for, noncompliance. IRS's 2001 tax gap estimate is based in part on recently collected compliance data for individual income tax underreporting. However, IRS does not have firm plans to obtain compliance data for other areas of the tax gap or again collect data on individual income tax underreporting. Finally, IRS lacks quantitative, long-term goals for improving taxpayer compliance, which would be consistent with results-oriented management.

IRS's Tax Year 2001 Gross Tax Gap Estimates by Type of Noncompliance and Type of Tax
Dollars in billions

Type of noncompliance	Type of tax						Total
	Individual Income	Corporate Income	Employment	Estate	Excise	No estimate	
Underreporting	\$150-\$187	\$30	\$66-\$71	\$4	estimate	\$250-\$292	
Underpayment	19	2	7	2	1	\$32	
Nonfiling	28	estimate	estimate	2	estimate	\$30	
Total	\$196-\$234	\$32	\$73-\$78	\$8	\$1	\$312-\$353	

Source: IRS.

Note: Figures may not sum to totals due to rounding.

Chairman Grassley, Senator Baucus, and Members of the Committee:

I appreciate this opportunity to discuss the annual tax gap—the difference between what taxpayers timely and accurately pay in taxes and what they should pay under the law—and how reducing that gap can help the nation cope with its large and growing long-term fiscal challenges. Most recently, the Internal Revenue Service (IRS) estimated a gross tax gap from \$312 billion to \$353 billion for tax year 2001.¹ IRS estimated that it would eventually recover some of this amount through late payments and IRS enforcement actions, resulting in an estimated “net” tax gap for 2001 from \$257 billion to \$298 billion.² The tax gap arises when taxpayers fail to comply with the tax laws, either intentionally or unintentionally. As a result of their noncompliance, the burden of funding the nation’s commitments, including funding growing budget deficits, falls more heavily on taxpayers who voluntarily pay their taxes. In addition, IRS expends substantial resources enforcing and explaining tax laws, with the goals of increasing compliance and reducing the tax gap.

For context in considering the tax gap, I will first provide the committee with the results of our most recent simulations of the long-term fiscal outlook. I will also discuss briefly the need for a fundamental reexamination of major spending and tax policies and priorities that will be important to recapturing our fiscal flexibility and updating our programs and priorities to respond to emerging social, economic, and security challenges. Next, I will discuss our long-standing concerns regarding tax compliance and IRS’s efforts to ensure compliance. Finally, I will discuss the significance of reducing the tax gap and a number of issues related to this challenging task, including various means to potentially improve compliance, measuring the extent of the tax gap, IRS’s understanding of the reasons why taxpayers are noncompliant, and IRS’s plans and strategies for reducing the gap. My remarks are based on our previous reports on a variety of issues as well as work we are performing for this committee on the tax gap, which we will address in greater detail in a forthcoming report, and will be performed under generally accepted government auditing standards.

¹IRS’s most recent estimates of the tax gap are preliminary, and as such, IRS presents them as ranges.

²Throughout this report, references to the tax gap refer to the gross tax gap unless otherwise noted.

Let me begin by highlighting several major points:

- The overall picture on the long-term fiscal outlook is not news to this committee. Simply put, our nation's fiscal policy is on an imprudent and unsustainable course. In addition, our long-term fiscal gap grew much larger in fiscal year 2004. Long-term budget simulations by GAO, the Congressional Budget Office (CBO), and others show that over the long term we face large and growing structural deficits due primarily to known demographic trends and rising health care costs. Continuing on this unsustainable fiscal path will gradually erode, if not suddenly damage, our economy, our standard of living, and ultimately our national security. Our current path also will increasingly constrain our ability to address emerging and unexpected budgetary needs and increase the burdens that will be faced by our children, grandchildren, and future generations.
- Regardless of the assumptions used, all simulations indicate that the long-term fiscal challenge is too big to be solved by economic growth alone or by making modest changes to existing spending and tax policies. Rather, a fundamental reexamination of major spending and tax policies and priorities will be important to recapturing our fiscal flexibility and updating our programs and priorities to respond to emerging social, economic, and security challenges. Ultimately, this reexamination will need to entail a national discussion about what Americans want from their government and how much they are willing to pay for those things. Especially relevant to this committee will be determining whether and how to change our current tax policies—including the type of tax base, the degree of progressivity in our tax system, or the extent of tax preferences in our system—and how to ensure that compliance with any tax system we may choose is as high as practically possible.
- We have long been concerned about tax noncompliance and IRS's efforts to address it. Since 1990 we have had various aspects of tax noncompliance on our high-risk list, and this year we have affirmed our broad concern by consolidating two prior high-risk areas into one—Enforcement of Tax Laws. Tax law enforcement is a high-risk area in part because past declines in IRS's enforcement activities threatened to erode taxpayer compliance. Declines in key IRS enforcement occupations and examinations and other enforcement results reinforce

the need to focus greater attention on tax compliance.³ The turnaround that has begun in staffing and some enforcement results is good news. However, IRS's preliminary new compliance estimate indicates that compliance has not improved and may be worse than IRS originally estimated. Therefore, sustained progress in improving compliance is needed.

- Reducing the current tax gap would contribute to our fiscal sustainability while simultaneously improving fairness for those citizens who fully and timely meet their tax obligations. Although closing the entire tax gap is not practical, even modest reductions will have very significant financial benefits—each 1 percent reduction in the tax gap that we could achieve would likely generate more than \$2.5 billion in revenue annually to help reduce deficits and/or fund our most pressing national priorities. Reducing the tax gap will be a challenging task given persistent levels of noncompliance and will not likely be achieved through a single solution. Rather, the tax gap must be attacked on multiple fronts and with multiple strategies over a sustained period of time. These strategies could include efforts to simplify the tax code, provide quality services to taxpayers, and utilize enforcement tools such as tax withholding and information reporting.
- Regularly measuring the extent and nature of noncompliance is critical to effective efforts to reduce the tax gap given changes in the economy and tax law. A significant portion of IRS's preliminary tax gap estimate for 2001 is based on recently collected compliance data on individual income tax reporting, which accounts for nearly 50 percent of the tax gap. However, for some areas of the tax gap, the estimate relies on outdated data and methodologies, including data from the 1970s and 1980s used to estimate corporate income tax underreporting and some employment tax underreporting. IRS does not have firm plans for obtaining more contemporary information on compliance for these areas of the tax gap or again measuring individual income reporting compliance. Further, IRS has missed opportunities to develop a better understanding of why taxpayers were noncompliant, which can guide IRS in determining what tools and techniques to use to address noncompliance. Finally, IRS's strategies for improving compliance do not have the clear focus on quantitative long-term goals and results

³GAO, *Internal Revenue Service: Assessment of Fiscal Year 2006 Budget Request and the Interim Results of the 2005 Filing Season*, GAO-05-416T (Washington, D.C.: Apr. 7, 2005).

measurement that are associated with high-performing organizations and that are incorporated into statutory management framework Congress has adopted.

Background

The tax gap is an estimate of the difference between the taxes—including individual income, corporate income, employment, estate, and excise taxes—that should have been timely and accurately paid and what was actually paid for a specific year. The estimate is an aggregate of estimates for the three primary types of noncompliance: (1) underreporting of tax liabilities on tax returns; (2) underpayment of taxes due from filed returns; and (3) nonfiling, which refers to the failure to file a required tax return altogether or timely.⁴ Estimates for each type of noncompliance include estimates for some or all of the five types of taxes that IRS administers.

IRS develops its tax gap estimates by measuring the rate of taxpayer compliance—the degree to which taxpayers fully and timely complied with their tax obligations. That rate is then used, along with other data and assumptions, to estimate the dollar amount of taxes not timely and accurately paid. For instance, IRS recently estimated that for tax year 2001, from 83.4 percent to 85 percent of owed taxes were paid voluntarily and timely, which translated into an estimate gross tax gap from \$312 billion to \$353 billion in taxes not paid that should have been. IRS also estimates the amount of the unpaid taxes that it will recover through enforcement and other actions and subtracts that to estimate the net annual tax gap. For tax year 2001, IRS estimated that it would eventually recover about \$55 billion for a net tax gap from \$257 billion to \$298 billion.

IRS has estimated the tax gap on multiple occasions, beginning in 1979. IRS's earlier tax gap estimates relied on the Taxpayer Compliance Measurement Program (TCMP), through which IRS periodically performed line-by-line examinations of randomly selected tax returns. TCMP started with tax year 1963 and examined individual returns most frequently—generally every 3 years—through tax year 1988. IRS contacted all taxpayers selected for TCMP studies. IRS did not implement any TCMP

⁴Taxpayers who receive filing extensions, pay their full tax liability by payment due dates, and file returns prior to extension deadlines are considered to have filed timely.

studies after 1988 because of concerns about costs and burdens on taxpayers.⁶

Recognizing the need for current compliance data, in 2002 IRS implemented a new compliance study called the National Research Program (NRP) to produce such data while minimizing taxpayer burden.⁶ Under NRP, a program that we have encouraged, IRS recently completed its initial review of about 46,000 randomly selected individual tax returns from tax year 2001. Unlike with TCMP studies, IRS did not need to contact taxpayers for every tax return selected under NRP; handled some taxpayer contacts through correspondence, as opposed to face-to-face examinations; and during face-to-face examinations, generally only asked taxpayers to explain information that it was otherwise unable to verify through IRS and third-party databases.

IRS has a strategic planning process through which it supports decisions about strategic goals, program development, and resource allocation. Under the Government Performance and Results Act of 1993 (GPRA),⁷ agencies are to develop strategic plans as the foundation for results-oriented management. GPRA requires that agency strategic plans identify long-term goals, outline strategies to achieve the goals, and describe how program evaluations were used to establish or revise the goals. GPRA requires federal agencies to establish measures to determine the results of their activities.

Long-term Fiscal Challenge Provides Impetus to Reexamine Tax Policies and Compliance

The nation is facing a range of important new forces that are already working to reshape American society, our place in the world, and the role of the federal government. Our capacity to address these and other emerging needs and challenges will be predicated on when and how we deal with our fiscal challenges—the long-term fiscal pressures we face are daunting and unprecedented in the nation's history. As this committee is well aware, the size and trend of our projected longer-term deficits means that the nation cannot ignore the resulting fiscal pressures—it is not a

⁶GAO, *Tax Administration: Status of IRS' Efforts to Develop Measures of Voluntary Compliance*, GAO-01-535 (Washington, D.C.: June 18, 2001).

⁶GAO, *Tax Administration: New Compliance Research Effort Is on Track, but Important Work Remains*, GAO-02-769 (Washington, D.C.: June 27, 2002).

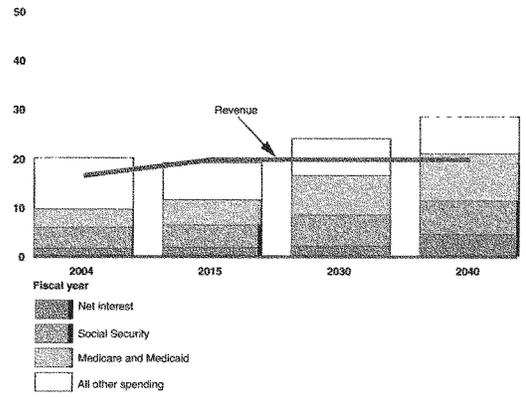
⁷Pub. L. No. 103-62 (1993).

matter of whether the nation deals with the fiscal gap, but when and how. Unless we take effective and timely action, our near-term and longer-term deficits present the prospect of chronic and seemingly perpetual budget shortfalls and constraints becoming a fact of life for years to come. Not only would continuing deficits eat away at the capacity of everything the government does, but they will erode our ability to address the wide range of emerging needs and demands competing for a share of a shrinking budget pie.

Our long-term simulations illustrate the magnitude of the fiscal challenges we will face in the future. Figures 1 and 2 present these simulations under two different sets of assumptions. In the first, we begin with CBO's January 2005 baseline—constructed according to the statutory requirements for that baseline.⁸ Consistent with these requirements, discretionary spending is assumed to grow with inflation for the first 10 years and tax cuts scheduled to expire are assumed to expire. After 2015, discretionary spending is assumed to grow with the economy, and revenue is held constant as a share of gross domestic product (GDP) at the 2015 level. In the second figure, two assumptions are changed: (1) discretionary spending is assumed to grow with the economy after 2005 rather than merely with inflation and (2) all temporary tax cuts are extended. For both simulations, Social Security and Medicare spending is based on the 2005 Trustees' intermediate projections, and we assume that benefits continue to be paid in full after the trust funds are exhausted.

⁸Congressional Budget Office, *The Budget and Economic Outlook: Fiscal Years 2006 to 2015* (Washington, D.C.: January 2005).

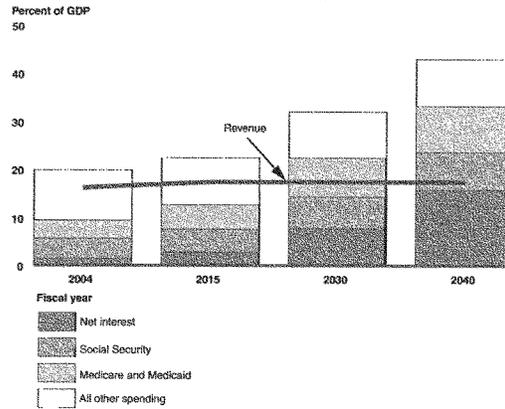
Figure 1: Composition of Spending as a Share of GDP under Baseline Extended



Source: GAO's March 2005 analysis.

Note: In addition to the expiration of tax cuts, revenue as a share of GDP increases through 2015 due to (1) real bracket creep, (2) more taxpayers becoming subject to the Alternative Minimum Tax (AMT), and (3) increased revenue from tax-deferred retirement accounts. After 2015, revenue as a share of GDP is held constant.

Figure 2: Composition of Spending as a Share of GDP Assuming Discretionary Spending Grows with GDP after 2005 and All Expiring Tax Provisions Are Extended



Source: GAO's March 2005 analysis.

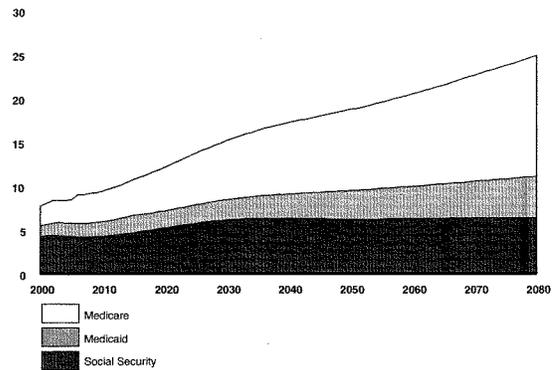
Note: Although expiring tax provisions are extended, revenue as a share of GDP increases through 2015 due to (1) real bracket creep, (2) more taxpayers becoming subject to the AMT, and (3) increased revenue from tax-deferred retirement accounts. After 2015, revenue as a share of GDP is held constant.

As both these simulations illustrate, absent policy changes on the spending or revenue side of the budget, the growth in spending on federal retirement and health entitlements will encumber an escalating share of the government's resources. Indeed, when we assume that recent tax reductions are made permanent and discretionary spending keeps pace with the economy, our long-term simulations suggest that by 2040 federal revenues may be adequate to pay little more than interest on the federal debt. Neither slowing the growth in discretionary spending nor allowing the tax provisions to expire—nor both together—would eliminate the imbalance. Although revenues will be part of the debate about our fiscal future, assuming no further borrowing, making no changes to Social Security, Medicare, Medicaid, and other drivers of the long-term fiscal gap would require at least a doubling of taxes, and that seems highly

implausible. Such significant tax increases would also likely have an adverse effect on economic growth and disposable income available to Americans. Accordingly, substantive reform of Social Security and our major health programs remains critical to recapturing our future fiscal flexibility.

Although considerable uncertainty surrounds long-term budget projections, we know two things for certain: the population is aging and the baby boom generation is approaching retirement age. The aging population and rising health care spending will have significant implications not only for the budget but also the economy as a whole. Figure 3 shows the total future draw on the economy represented by Social Security, Medicare, and Medicaid. Under the 2005 Trustees' intermediate estimates and CBO's long-term Medicaid estimates, spending for these entitlement programs combined will grow to 15.2 percent of GDP in 2030 from today's 8.5 percent. It is clear that taken together Social Security, Medicare, and Medicaid represent an unsustainable burden on future generations.

Figure 3: Social Security, Medicare, and Medicaid Spending as a Percent of GDP
Percent of GDP



Source: GAO analysis based on data from the Office of the Chief Actuary, Social Security Administration, Office of the Actuary, Centers for Medicare and Medicaid Services, and the Congressional Budget Office.

Notes: Social Security and Medicare projections based on the intermediate assumptions of the 2005 Trustees' Reports. Medicaid projections based on CBO's January 2005 short-term Medicaid estimates and CBO's December 2003 long-term Medicaid projections under mid-range assumptions.

Early action to change these programs would yield the highest fiscal dividends for the federal budget and would provide a longer period for prospective beneficiaries to make adjustments in their own planning. Waiting to build economic resources and reform future claims entails risks. First, we lose an important window during which today's relatively large workforce can increase saving and enhance productivity, two elements critical to growing the future economy. We also lose the opportunity to reduce the burden of interest in the federal budget, thereby creating a legacy of higher debt as well as elderly entitlement spending for the relatively smaller workforce of the future. Most critically, we risk losing the opportunity to phase in changes gradually so that all can make the adjustments needed in private and public plans to accommodate this historic shift. Unfortunately, the long-range challenge has become more difficult, and the window of opportunity to address the entitlement challenge is narrowing.

**A Fundamental Review,
Reexamination, and
Reprioritization Is Needed**

Confronting the nation's fiscal challenge will require nothing less than a fundamental review, reexamination, and reprioritization of all major spending and tax policies and programs that may take a generation or more to resolve. Traditional incremental approaches to budgeting will need to give way to more fundamental and periodic reexaminations of the base of government. Many, if not most, current federal programs and policies were designed decades ago to respond to trends and challenges that existed at the time of their creation. If government is to respond effectively to 21st century trends, it cannot accept what it does, how it does it, who does it, and how it gets financed as "given." Not only do outmoded commitments, operations, choices of tools, management structures, and tax programs and policies constitute a burden on future generations, but they also erode the government's capacity to align itself with the needs and demands of the 21st century.

Reexamining the base of government will be a challenging task, and we at GAO believe we have an obligation to assist and support Congress in this endeavor. To that end, we recently issued a report⁹ that provides examples of the kinds of difficult choices the nation faces with regard to discretionary spending; mandatory spending, including entitlements; as well as tax policies and compliance activities. Regarding tax policy, a debate is under way about the future of our tax system that is partly about whether the goals for the nation's tax system can be best achieved using the current structure or a fundamentally reformed tax structure. The debate is also motivated by increasing globalization, the growing complexity of our tax system, and the growing use of tax preferences whose aggregate revenue loss has exceeded all discretionary spending in 5 of the past 10 years.

Although outside the scope of this hearing, today's pressing tax challenges raise important questions. For example:

- Given our current tax system, what tax rate structure is more likely to raise sufficient revenue to fund government and satisfy the public's perception of fairness?

⁹GAO, *21st Century Challenges: Reexamining the Base of the Federal Government*, GAO-05-325SP (Washington, D.C.: Feb. 2005).

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- Which tax preferences need to be reconsidered because they fail to achieve the objectives intended by the Congress, their costs outweigh their benefits, they duplicate other programs, or other more cost effective means exist for achieving their objectives?
 - Should the basis of the existing system be changed from an income to a consumption base? Would such a change help respond to challenges posed by demographic, economic, and technological changes? How would such a change affect savings and work incentives? How would reforms address such issues as the impact on state and local tax systems and the distribution of burden across the nation's taxpayers?

Regarding compliance with our tax laws, the success of our tax system hinges greatly on the public's perception of its fairness and understandability. Compliance is influenced not only by the effectiveness of IRS's enforcement efforts but also by Americans' attitudes about the tax system and their government. A recent survey indicated that about 12 percent of respondents say it is acceptable to cheat on their taxes. Furthermore, the complexity of, and frequent revisions to, the tax system make it more difficult and costly for taxpayers who want to comply to do so and for IRS to explain and enforce tax laws. Complexity also creates a fertile ground for those intentionally seeking to evade taxes and often trips others into unintentional noncompliance. The lack of transparency also fuels disrespect for the tax system and the government. Thus, a crucial challenge for reexamination will be to determine how we can best strengthen enforcement of existing laws to give taxpayers confidence that their friends, neighbors, and business competitors are paying their fair share.

Enforcement of Tax Laws Is on GAO's High-Risk List

We have long been concerned about tax noncompliance and IRS efforts to address it. Collection of unpaid taxes was included in our first high-risk series report in 1990, with a focus on the backlog of uncollected debts owed by taxpayers. In 1995, we added Filing Fraud as a separate high-risk area, narrowing the focus of that high-risk area in 2001 to Earned Income Credit Noncompliance because of the particularly high incidence of fraud and other forms of noncompliance in that program. We expanded our concern about the Collection of Unpaid Taxes in our 2001 high-risk report to include not only unpaid taxes (including tax evasion and unintentional noncompliance) known to IRS, but also the broader enforcement issue of unpaid taxes that IRS has not detected. In our high-risk update that we

issued in January,¹⁰ we consolidated these areas into a single high-risk area—Enforcement of the Tax Laws—because we believe the focus of concern on the enforcement of tax laws is not confined to any one segment of the taxpaying population or any single tax provision.

Tax law enforcement is a high-risk area in part because past declines in IRS's enforcement activities threatened to erode taxpayer compliance. In recent years, the resources IRS has been able to dedicate to enforcing the tax laws have declined. For example, the number of revenue agents (those who examine complex returns), revenue officers (those who perform field collection work), and special agents (those who perform criminal investigations) decreased over 21 percent from 1998 through 2003. However, IRS achieved some staffing gains in 2004 and expects modest gains in 2005. IRS's proposal for fiscal year 2006, if funded and implemented as planned, would return enforcement staffing in these occupations to their highest levels since 1999.¹¹

Concurrently, IRS's enforcement workload—measured by the number of taxpayer returns filed—has continually increased. For example, from 1997 through 2003, the number of individual income tax returns filed increased by about 8 percent. Over the same period, returns for high income individuals grew by about 81 percent.¹² Due to their income levels, IRS believes that these individuals present a particular compliance risk. In light of declines in enforcement staffing and the increasing number of returns filed, nearly every indicator of IRS's coverage of its enforcement workload has declined in recent years. Although in some cases workload coverage has begun to increase, overall IRS's coverage of known workload is considerably lower than it was just a few years ago. Figure 4 shows the trend in examination rates—the proportion of tax returns that IRS examines each year—for field, correspondence, and total examinations since 1995. Field examinations involve face-to-face examinations and correspondence examinations are typically less comprehensive and complex, involving communication through written notices. IRS experienced steep declines in examination rates from 1995 to 1999, but the

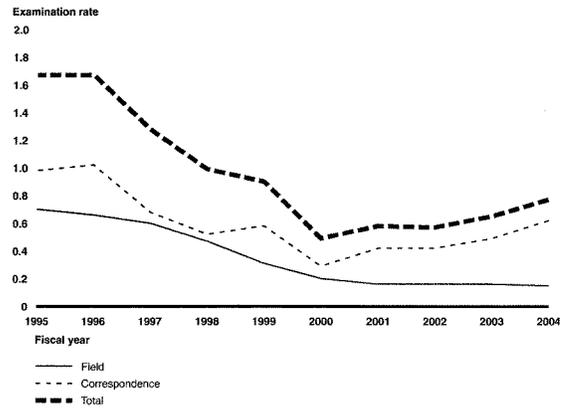
¹⁰GAO, *High-Risk Series: An Update*, GAO-05-207 (Washington, D.C.: January 2005).

¹¹GAO-05-416T.

¹²High income individual taxpayers are those reporting \$100,000 or more of "total positive income," which is, in general, the sum of all positive amounts shown for the various sources of income reported on individual tax returns and thus excludes net losses.

examination rate has slowly increased since 2000. However, as the figure shows, the increase in total examination rates of individual filers has been driven mostly by correspondence examinations, while more complex field examinations continue to decline.

Figure 4: Examination Rate for Individual Income Tax Returns, Fiscal Years 1995-2004



On the collection front, IRS's use of enforcement sanctions, such as liens, levies, and seizures, dropped precipitously during the mid- and late 1990s. In fiscal year 2000, IRS's use of these three sanctions was at 38 percent, 7 percent, and 1 percent, respectively, of fiscal year 1996 levels. However, beginning in fiscal year 2001, IRS's use of liens and levies began to

increase.¹³ By fiscal year 2004, IRS's use of liens, levies, and seizures reached 71 percent, 65 percent, and 4 percent of 1996 levels, respectively.

Further, IRS's workload has grown ever more complex as the tax code has grown more complex. IRS is challenged to administer and explain each new provision, thus absorbing resources that otherwise might be used to enforce the tax laws. Concurrently, other areas of particularly serious noncompliance have gained the attention of IRS and Congress, such as abusive tax shelters and schemes employed by businesses and wealthy individuals that often involve complex transactions that may span national boundaries. Given the broad declines in IRS's enforcement workforce, IRS's decreased ability to follow up on suspected noncompliance, and the emergence of sophisticated evasion concerns, IRS is challenged in attempting to ensure that taxpayers fulfill their obligations.

IRS is working to further improve its enforcement efforts. In addition to recent favorable trends in enforcement staffing, correspondence examinations, and the use of some enforcement sanctions, IRS has recently made progress with respect to abusive tax shelters through a number of initiatives and recent settlement offers that have resulted in billions of dollars in collected taxes, interest, and penalties. In addition, IRS is developing a centralized cost accounting system, in part to obtain better cost and benefit information on compliance activities, and is modernizing the technology that underpins many core business processes. It has also redesigned some compliance and collections processes and plans additional redesigns as technology improves. Finally, the recently completed NRP study of individual taxpayers not only gives us a benchmark of the status of taxpayers' compliance but also gives IRS a better basis to target its enforcement efforts. However, IRS's preliminary compliance estimate based on NRP indicates that compliance has not improved and may be worse than IRS originally estimated. As such, sustained progress toward improving compliance is needed.

¹³We made a number of recommendations to improve and expand IRS's levy efforts. See GAO, *Tax Administration: IRS's Levy of Federal Payments Could Generate Millions of Dollars*, GAO/GGD-00-65 (Washington, D.C.: Apr. 7, 2000), and *Tax Administration: Millions of Dollars Could Be Collected if IRS Levied More Federal Payments*, GAO-01-711 (Washington, D.C.: July 20, 2001).

Multiple Service and Enforcement Strategies, Periodic Compliance Measurement, and A Results-Oriented Compliance Approach May Help IRS Reduce the Tax Gap

Reducing the tax gap would be a step toward improving our fiscal sustainability while simultaneously enhancing fairness for those citizens who meet their tax obligations. That said, reducing the tax gap is a challenging task, and closing the entire tax gap is not practical. Reducing the tax gap will not likely be achieved through a single solution, but will likely involve multiple strategies that include reducing tax code complexity, providing quality services to taxpayers, and enhancing enforcement of the tax laws through the use of tools such as tax withholding and information reporting that increase the transparency of income and deductions to both IRS and taxpayers. Also, as IRS moves forward in continuing to address the tax gap, building and maintaining a base of information on the extent of, and reasons for, noncompliance as well as defining desired changes in the tax gap and measuring results of efforts to address it will be critical.

Reducing the Tax Gap Could Have a Positive Fiscal Impact but Will Require Multiple Strategies

Given its size, even small or moderate reductions in the net tax gap could yield substantial returns. For example, based on IRS's most recent estimate, each 1 percent reduction in the net tax gap would likely yield more than \$2.5 billion annually. Thus, a 10 percent to 20 percent reduction of the net tax gap would translate into from \$25 billion to \$50 billion or more in additional revenue annually.¹⁴

Although reducing the tax gap may be an attractive means to improve the nation's fiscal position, achieving this end will be a challenging task given persistent levels of noncompliance. IRS has made efforts to reduce the tax gap since the early 1980s; yet the tax gap is still large—although without these efforts it could be even larger. Also, IRS is challenged in reducing the tax gap because the tax gap is spread across the five different types of taxes that IRS administers, and a substantial portion of the tax gap is attributed to taxpayers who are not subject to withholding or information reporting requirements. Moreover, as we have reported in the past,¹⁵ closing the entire tax gap may not be feasible nor desirable, as it could

¹⁴Any significant reduction of the tax gap would likely depend on an improvement in the level of taxpayer compliance. In some instances, the amount of the tax gap can change without a corresponding change in the level of compliance. For example, a reduction in marginal tax rates could result in a smaller tax gap simply because the amount of tax that should be paid has been reduced, even if the level of compliance remains unchanged.

¹⁵GAO, *Taxpayer Compliance: Analyzing the Nature of the Income Tax Gap*, GAO/T-GGD-97-35 (Washington, D.C.: Jan. 9, 1997).

entail more intrusive recordkeeping or reporting than the public is willing to accept or more resources than IRS is able to commit.

Although much of the tax gap that IRS currently recovers is through enforcement actions, a sole focus on enforcement will not likely be sufficient to further reduce the net tax gap. Rather, the tax gap must be attacked on multiple fronts and with multiple strategies on a sustained basis. For example, efforts to simplify the tax code and otherwise alter current tax policies may help reduce the tax gap by making it easier for individuals and business to understand and voluntarily comply with their tax obligations. For instance, reducing the multiple tax preferences for retirement savings or education assistance might ease taxpayers' burden in understanding and complying with the rules associated with these options. Also, simplification may reduce opportunities for tax evasion through vehicles such as abusive tax shelters. However, for any given set of tax policies, IRS's efforts to reduce the tax gap and ensure appropriate levels of compliance will need to be based on a balanced approach of providing service to taxpayers and enforcing the tax laws.

Furthermore, providing quality services to taxpayers is an important part of any overall strategy to improve compliance and thereby reduce the tax gap. As we have reported in the past,¹⁶ one method of improving compliance through service is to educate taxpayers about confusing or commonly misunderstood tax requirements. For example, if the forms and instructions taxpayers use to prepare their taxes are not clear, taxpayers may be confused and make unintentional errors. One method to ensure that forms and instructions are sufficiently clear is to test them before use. However, we reported in 2003 that IRS had tested revisions to only five individual forms and instructions from July 1997 through June 2002, although hundreds of forms and instructions had been revised in 2001 alone.¹⁷

Finally, in terms of enforcement, IRS will need to use multiple strategies and techniques to find noncompliant taxpayers and bring them into compliance. However, a pair of tools has been shown to lead to high levels of compliance: withholding tax from payments to taxpayers and having

¹⁶GAO/T-GGD-97-35.

¹⁷GAO, *Tax Administration: IRS Should Reassess the Level of Resources for Testing Forms and Instructions*, GAO-03-486 (Washington, D.C.: Apr. 11, 2003).

third parties report information to IRS and the taxpayers on income paid to taxpayers. For example, banks and other financial institutions provide information returns (Forms 1099) to account holders and IRS showing the taxpayers' annual income from some types of investments. Similarly, most wages, salaries, and tip compensation are reported by employers to employees and IRS through Form W-2. Preliminary findings from NRP indicate that more than 98.5 percent of these types of income are accurately reported on individual returns.

In the past, we have identified a few potential areas where additional withholding or information reporting requirements could serve to improve compliance:¹⁸

- **Requiring tax withholding and more or better information return reporting on payments made to independent contractors.** Past IRS data have shown that independent contractors report 97 percent of the income that appears on information returns, while contractors that do not receive these returns report only 83 percent of income. We have also identified other options for improving information reporting for independent contractors, including increasing penalties for failing to file required information returns, lowering the \$600 threshold for requiring such returns, and requiring businesses to separately report on their tax returns the total amount of payments to independent contractors.¹⁹
- **Requiring information return reporting on payments made to corporations.** Unlike payments made to sole proprietors, payments made to corporations for services are generally not required to be reported on information returns. IRS and GAO have contended that the lack of such a requirement leads to lower levels of compliance for small corporations. Although Congress has required federal agencies to provide information returns on payments made to contractors since 1997,²⁰ payments made by others to corporations are generally not covered by information returns.

¹⁸GAO, *Tax Gap: Many Actions Taken, but a Cohesive Compliance Strategy Needed*, GAO/GGD-94-123 (Washington, D.C.: May 11, 1994).

¹⁹GAO, *Tax Administration: Approaches for Improving Independent Contractor Compliance*, GAO/GGD-92-108 (Washington, D.C.: July 23, 1992).

²⁰Taxpayer Relief Act of 1997, Pub. L. No. 105-34 (1997).

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- **Require more data on information returns dealing with capital gain income.** Past IRS studies have indicated that much of the noncompliance associated with capital gains is a result of taxpayers overstating an asset's "basis," the amount of money originally paid for the asset. Currently, financial institutions are required to report the sales prices, but not the purchase prices, of stocks and bonds on information returns. Without information on purchase prices, IRS cannot use efficient and effective computer-matching programs to check for compliance and must use much more costly means to examine taxpayer returns in order to verify capital gain income.

Although withholding and information returns are highly effective in encouraging compliance, such additional requirements generally impose costs and burdens on the businesses that must implement them. However, continued reexamination of opportunities to expand information reporting and tax withholding could increase the transparency of the tax system. Such reexamination could be especially relevant toward improving compliance in areas that are particularly complex or challenging to administer, such as noncash charitable contributions or net income and losses passed through from "flow-through" entities such as S corporations and partnerships to their shareholders and partners.²¹

Finally, making progress on closing the tax gap requires that the tools and techniques being used to promote compliance are evaluated to ensure that they actually are effective. IRS evaluates some of its efforts to assess how well they work, perhaps most notably its current effort to test new procedures designed to reduce noncompliance with the Earned Income Tax Credit,²² but misses other opportunities. For example, the lack of testing for forms and instructions mentioned earlier is one instance where improved evaluation would be worthwhile. We also reported in 2002 that the effectiveness of the Federal Tax Deposit Alert program—a program that since 1972 has been intended to reduce delinquencies in paying

²¹Partnerships and S corporations are businesses commonly referred to as flow-through entities, as they do not generally pay taxes on income. Instead, they distribute net income and losses to partners, shareholders, and beneficiaries, who are subsequently required to report net income or losses on their individual tax returns and pay any applicable taxes.

²²GAO, *Earned Income Credit: Qualifying Child Certification Test Appears Justified, but Evaluation Plan Is Incomplete*, GAO-03-794 (Washington, D.C.: Sept. 30, 2003), and *Earned Income Tax Credit: Implementation of Three New Tests Proceeded Smoothly, But Tests and Evaluation Plans Were Not Fully Documented*, GAO-05-92 (Washington, D.C.: Dec. 30, 2004).

employment taxes—could not be evaluated because IRS had no system to track contacts IRS made with delinquent employers.²³ The availability of current compliance information should enhance IRS's ability to evaluate the success of its efforts to promote compliance.

Regular Compliance Measurement Can Support Informed Decisions to Reduce the Tax Gap, but IRS Lacks Firm Plans for Such Measurement

Regularly measuring compliance can offer many benefits, including helping IRS identify new or major types of noncompliance, identify changes in tax laws and regulations that may improve compliance, more effectively target examinations of tax returns or other enforcement programs, understand the effectiveness of its programs to promote and enforce compliance, and determine its resource needs and allocations. For example, by analyzing 1979 and 1982 TCMP data, IRS identified significant noncompliance with the number of dependents claimed on tax returns and justified a legislative change to address the noncompliance. As a result, for tax year 1987 taxpayers claimed about 5 million fewer dependents on their returns than would have been expected without the change in law. In addition, tax compliance data are useful outside of IRS for tax policy analysis, revenue estimating, and research.

A significant portion of IRS's new tax gap estimate is based on recent compliance data. IRS used data from NRP to update individual income tax underreporting and the portion of individual employment tax underreporting from self-employed individuals.²⁴ Completion of NRP is a substantial achievement—as table 1 indicates, underreporting of individual income taxes represented about half of the tax gap for 2001 (the estimate ranges from \$150 billion to \$187 billion out of a gross tax gap estimate that ranges from \$312 billion to \$353 billion). Also, from \$51 billion to \$56 billion of the \$66 billion to \$71 billion in estimated underreported employment tax was due to self-employment tax underreporting. IRS used current, actual data from its Master Files to calculate the underpayment segment of the tax gap.

²³GAO, *Tax Administration: IRS's Efforts to Improve Compliance With Employment Tax Requirements Should Be Evaluated*, GAO-02-92 (Washington, D.C.: Jan. 15, 2002).

²⁴Self-employed individuals are required to calculate and remit Social Security and Medicare taxes to the U.S. Treasury each quarter, while employers generally withhold these taxes from their employees' wages, match these amounts, and are required to remit these withholdings to Treasury at least quarterly.

Table 1: IRS's Tax Year 2001 Gross Tax Gap Estimates by Type of Noncompliance and Type of Tax

Dollars in billions

Type of noncompliance	Type of tax					Total
	Individual income tax	Corporate income tax	Employment tax	Estate tax	Excise tax	
Underreporting	\$150-\$187	\$30	\$66-\$71	\$4	No estimate	\$250-\$292
Underpayment	19	2	7	2	1	\$32
Nonfiling	28	No estimate	No estimate	2	No estimate	\$30
Total	\$198-\$234	\$32	\$73-\$78	\$8	\$1	\$312-\$353

Source: IRS.

Note: Figures may not sum to totals due to rounding.

IRS has concerns with the certainty of the overall tax gap estimate in part because some areas of the estimate rely on old data and IRS has no estimates for other areas of the tax gap. IRS does not have estimates for corporate income, employment, and excise tax nonfiling or for excise tax underreporting. For these types of noncompliance, IRS maintains that the data are either difficult to collect, imprecise, or unavailable. IRS has not recently collected compliance data for the remaining segments of the tax gap. For example, IRS used data from the 1970s and 1980s to estimate underreporting of corporate income taxes and employer-withheld employment taxes.

IRS is taking several steps that could improve the tax gap estimate for tax year 2001. IRS plans to further analyze the preliminary results from NRP and expects to publish a revised estimate by the end of 2005. The revised estimate will incorporate new methodologies, including those for estimating overall individual income tax underreporting as well as for the portion attributable to self-employed individuals who operate businesses informally, and for estimating individual income tax nonfiling. In addition, IRS research officials have proposed a compliance measurement study that will allow IRS to update underreporting estimates involving flow-through entities. This study, which IRS intends to begin in fiscal year 2006, would take 2 to 3 years to complete. Because either individual taxpayers or corporations may be recipients of income (or losses) from flow-through entities, this study could affect IRS's estimates for the underreporting gap for individual and corporate income tax.

While these data and methodology updates could improve the tax gap estimates, IRS has no documented plans to periodically collect more or better compliance data over the long term. Other than the proposed study of flow-through entities, IRS does not have plans to collect compliance data for other segments of the tax gap. Also, IRS has indicated that given its current research priorities, it would not begin another NRP study of individual income tax returns before 2008, if at all, and would not complete such a study until at least 2010. When IRS initially proposed the NRP study, it had planned to study individual income tax underreporting on a 3-year cycle.

According to IRS officials, IRS has not committed to regularly collecting compliance data because of the associated costs and burdens. Taxpayers whose returns are examined through compliance studies such as NRP bear costs in terms of time and money. Also, IRS incurs costs, including direct costs and opportunity costs—revenue that IRS potentially forgoes by using its resources to examine randomly selected returns, which may include returns from compliant taxpayers, as opposed to traditional examinations that focus on taxpayer returns that likely contain noncompliance and may more consistently produce additional tax assessments.

Although the costs and burdens of compliance measurement are legitimate concerns, as we have reported in the past, we believe compliance studies to be good investments.²⁵ Without current compliance data, IRS is less able to determine key areas of noncompliance to address and actions to take to maximize the use of its limited resources. The lack of firm plans to continually obtain fresh compliance data is troubling because the frequency of data collection can have a large impact on the quality and utility of compliance data. As we have reported in the past, the longer the time between compliance measurement surveys, the less useful they become given changes in the economy and tax law.²⁶

In designing the NRP study, IRS balanced the costs, burdens, and compliance risk of studying that area of the tax gap. Any plans for obtaining and maintaining reasonably current information on compliance levels for all portions of the tax gap would similarly need to take into

²⁵GAO, *Tax Administration: IRS' Plans to Measure Tax Compliance Can Be Improved*, GAO/GGD-93-52 (Washington, D.C.: Apr. 5, 1993).

²⁶GAO/GGD-93-52.

account costs, burdens, and compliance risks in determining which areas of compliance to measure and the scope and frequency of such measurement.

Knowing the Reasons for Noncompliance Could Help Guide Compliance Efforts, but IRS Has Concerns with Its Data on These Reasons

Data on whether taxpayers are unintentionally or intentionally noncompliant with specific tax provisions are critical to IRS for deciding whether its efforts to address specific areas of noncompliance should focus on nonenforcement activities, such as improved forms or publications, or enforcement activities to pursue intentional noncompliance. Recognizing such benefits, the National Taxpayer Advocate has urged IRS to consider performing additional research into causes of noncompliance.²⁷ We have also reported in the past²⁸ that rigorous research of the causes of noncompliance seems intuitive.

IRS collects data on the reasons for noncompliance for specific tax issues during its examinations of tax returns, including those reviewed for NRP. However, IRS has a number of concerns with the data:

- The database is incomplete as not all examiners have been sending information on the results, including reasons, of closed examinations to be entered into the database.
- IRS has not tested the adequacy of the controls for data entry or the reliability of the data being collected. IRS has found instances where examiners close examinations without assigning a reason for noncompliance or by assigning the same reason to all instances of noncompliance, regardless of the situation.
- IRS has not trained all examiners to deal with the subjectivity of determining reasons to ensure consistent understanding of the reason categories.

²⁷Testimony of Nina E. Olson, National Taxpayer Advocate, before the Senate Committee on Finance, July 21, 2004, and Internal Revenue Service, Taxpayer Advocate Service, *National Taxpayer Advocate 2004 Annual Report to Congress* (Washington, D.C.: Dec. 31, 2004).

²⁸GAO, *Tax Research: IRS Has Made Progress but Major Challenges Remain*, GAO/IGD-96-109 (Washington, D.C.: June 5, 1996).

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- The data are not representative of the population of noncompliant taxpayers because the examined tax returns were not selected randomly.

As IRS continues to collect data on the reasons for noncompliance in the future, it will be important to take these concerns into account. Additionally, as with its efforts to measure compliance, it will be important for IRS to consider the costs and burden of obtaining data on the reasons for noncompliance.

Long-term, Quantitative Goals for Improving Taxpayers' Compliance Would Be Consistent with Results-Oriented Management

Focusing on outcome-oriented goals and establishing measures to assess the actual results, effects, or impact of a program or activity compared to its intended purpose can help agencies improve performance and stakeholders determine whether programs have produced desired results. As such, establishing long-term, quantitative compliance goals offers several benefits for IRS. Perhaps most important, compliance goals coupled with periodic measurements of compliance levels would provide IRS with a better basis for determining to what extent its various service and enforcement efforts contribute to compliance. Additionally, long-term, quantitative goals may help IRS consider new strategies to improve compliance, especially since these strategies could take several years to implement. For example, IRS's progress toward the goal of having 80 percent of all individual tax returns electronically filed by 2007²⁰ has required enhancement of its technology, development of software to support electronic filing, education of taxpayers and practitioners, and other steps that could not be completed in a short time frame. Focusing on intended results can also promote strategic and disciplined management decisions that are more likely to be effective because managers who use fact-based performance analysis are better able to target areas most in need of improvement and select appropriate interventions. Likewise, agency accountability can be enhanced when both agency management and external stakeholders such as Congress can readily measure an agency's progress toward meeting its goals. Finally, setting long-term, quantitative goals would be consistent with results-oriented management principles that are associated with high-performing organizations and incorporated into the statutory management framework Congress has adopted through GPRA.

²⁰Congress established this electronic filing goal in the IRS Restructuring and Reform Act of 1998, Pub. L. No. 105-206 (1998).

IRS's strategies for improving compliance generally lack a clear focus on long-term, quantitative goals and results measurement. Although IRS has established broad qualitative goals and strategies for improving taxpayer service and enhancing enforcement of the tax laws, it has not specified by how much it hopes these strategies will improve compliance. IRS has also identified measures, such as compliance rates for tax reporting, filing, and payment as well as the percentage of Americans who think it is acceptable to cheat on their taxes,³⁰ which are intended to gauge the progress of its strategies toward its broad goals. However, IRS does not always collect recent data to update these measures and has not established quantitative goals against which to compare the measures. In response to a President's Management Agenda³¹ initiative to better integrate budget and performance information, IRS officials said that they are considering various long-term goals for the agency. These goals are to be released by May 2005. The officials have not indicated how many goals will be related to improving taxpayer compliance or whether they will be quantitative and results-oriented.

Not unlike other agencies,³² IRS faces challenges in implementing a results-oriented management approach, such as identifying and collecting the necessary data to make informed judgments about what goals to set and to subsequently measure its progress in reaching such goals. However, having completed the NRP review of income underreporting by individuals, IRS now has an improved foundation for setting a goal or goals for improving

³⁰Other measures for enhancing enforcement are (1) the percentage of priority guidance list items published (percentage of tax issues IRS will address through regulations, notices, and other forms of guidance) and (2) average cycle time between receipt and completion of an audit case.

³¹The President's Management Agenda is intended to help the federal government become more results-oriented and encourage federal managers to ask whether their programs are working as intended and, if not, what can be done to achieve greater results.

³²GAO, *The Government Performance and Results Act: 1997 Governmentwide Implementation Will Be Uneven*, GAO/GGD-97-109 (Washington, D.C.: June 2, 1997), and *Results-Oriented Government: GPRA Has Established a Solid Foundation for Achieving Greater Results*, GAO-04-38 (Washington, D.C.: Mar. 10, 2004).

taxpayers' compliance.³³ Nevertheless, measuring progress toward any goals that may be set could be challenging. For example, IRS researchers have found it difficult to determine the extent to which its enforcement actions deter noncompliance or its services improve compliance among taxpayers who want to comply. Measuring these effects is complicated in part because many factors outside of IRS's actions can affect compliance. However, as the National Taxpayer Advocate's 2004 annual report to Congress³⁴ pointed out, current and existing data on noncompliance may help IRS better understand and address this challenge. Furthermore, even if IRS is unable to show that its actions directly affected compliance rates, periodic measurements of compliance levels can indicate the extent to which compliance is improving or declining and provide a basis for reexamining existing programs and triggering corrective actions if necessary.

Concluding Observations

The nation is currently on an imprudent and unsustainable fiscal path that threatens our future. If we act now to address the looming fiscal challenges facing the nation, the lives of our children and grandchildren will be measurably better than if we wait. Nevertheless, the decisions we must make will not be easy. They involve difficult choices about the role of government in our lives and our economy. Acting now will impose sacrifices, but today we have more options with less severe consequences than if we wait.

Reducing the tax gap is one option that would help. While our long-term fiscal imbalance is too large to be eliminated by one strategy, reducing the tax gap can ease the difficult decisions that are needed. But, regardless of the contribution that a reduced tax gap can make to easing our long-term challenges, we need to make concerted efforts to address the tax gap because it is fundamentally unfair and threatens Americans' trust in their

³³The Internal Revenue Service Restructuring and Reform Act of 1998, Pub. L. No. 105-206 (1998), specifically prohibits IRS from using its records of tax enforcement results to evaluate employees or to impose or suggest production quotas or goals with respect to such employees. That restriction does not, however, prevent IRS from using its records of tax enforcement results to examine whether its current enforcement efforts are effective in deterring noncompliance and to in turn establish long-term strategies and priorities for improvement.

³⁴Internal Revenue Service, Taxpayer Advocate Service, *National Taxpayer Advocate 2004 Annual Report to Congress*.

government. The tax gap is both a measure of the burden and frustration of taxpayers who want to comply but are tripped by tax code complexity and of willful tax cheating by a minority who want the benefits of government services without paying their fair share.

Chairman Grassley, Senator Baucus, and Members of the Committee, this concludes my testimony. At the request of the committee, in the near future, we will issue a report that addresses the tax gap in greater detail and, as appropriate, may make recommendations related to the topics covered in my statement. We look forward to continuing to support the committee's oversight of the tax gap and related issues. I would be happy to answer any questions you may have at this time.

Contact and Acknowledgments

For further information on this testimony, please contact Michael Brostek on (202) 512-9110 or brostekm@gao.gov. Individuals making key contributions to this testimony include Jeff Arkin, Elizabeth Fan, Shannon Groff, George Guttman, Michael Rose, and Tom Short.



Comptroller General
of the United States

May 25, 2005

The Honorable Charles E. Grassley
Chairman
The Honorable Max Baucus
Ranking Minority Member
Committee on Finance
United States Senate

Subject: Posthearing Questions Related to the Tax Gap

On April 14, 2005, I testified before your Committee at a hearing on “The \$350 Billion Question: How to Solve the Tax Gap.”¹ This letter responds to the written questions submitted from Senator Baucus following the hearing. These questions, along with my responses, follow. In addition, we are including information on potential metrics that can be used to measure IRS’s progress toward improving compliance and reducing the tax gap, as requested by Senator Baucus during the hearing.

Social Security Employment Tax Gap

1. Would it be achievable for the IRS to propose a plan—including a solid business case for the plan—that would reduce the Social Security employment tax gap by one-fourth or one-half over a ten year horizon—or longer if necessary? If not, why not? Please explain.

Although IRS likely could propose a plan to significantly reduce the Social Security employment tax gap over the long term, significant uncertainty arises on how much IRS could reduce the gap, by when and at what cost to the federal government and others. Given this uncertainty, we cannot now say whether the Social Security employment tax gap could be reduced by 25 percent to 50 percent and, if so, by when.

According to IRS’s preliminary new estimate of the tax gap, over three-quarters of the employment tax gap (which includes Social Security, Medicare, and unemployment taxes) is due to underreporting of self-employment income. Such underreporting is a long-standing challenge for IRS and effective solutions have been difficult to identify. As IRS completes its analysis of data gathered to develop its new tax gap estimate, it may be able to develop new ideas for addressing underreported self-employment

¹GAO, *Tax Compliance: Reducing the Tax Gap Can Contribute to Fiscal Sustainability but Will Require a Variety of Strategies*, GAO-05-527T (Washington, D.C.: Apr. 14, 2005).

income, and thereby the employment tax gap, and to improve its existing service and compliance efforts. One such possibility might be to provide enhanced information reporting and/or additional tax withholding by certain pass through entities (e.g., partnerships, Subchapter S corporations).

Regardless of the details of such a plan, reducing the tax gap will not likely be achieved through a single solution, as I discussed in my testimony. Some portions of a plan may require legislative changes while others may involve administrative changes. A plan to reduce the tax gap, including the Social Security employment tax gap, must incorporate multiple strategies, including such elements as identifying opportunities to reduce tax code complexity, considering additional information reporting or withholding, providing quality services to taxpayers, and enhancing enforcement of tax laws.

A number of variables could affect IRS's ability to develop and implement a plan to substantially reduce the employment tax gap over 10 or more years:

- Funding for the multiple strategies envisioned in the plan likely would need to be maintained over the long term.
- Measuring compliance levels periodically through studies such as the National Research Program would help IRS identify the types of noncompliance comprising the tax gap and the related reasons for noncompliance. IRS could use these data to help make cost-effective resource allocation decisions on the types of noncompliance to address and types of compliance strategies to employ.
- Evaluating the results of the specific strategies in any plan could allow IRS to determine their impacts on improving compliance and reducing the employment tax gap. IRS could also use results to guide modifications to its plan.

2. Do you think that expanding information reporting and/or withholding requirements would help close the Social Security employment tax gap?

Yes, as discussed in my testimony and in previous reports, tax withholding and third party information return reporting have been shown to lead to high levels of compliance.² These tools have improved tax compliance by increasing the transparency of income and deductions to both IRS and taxpayers.

As mentioned in the response to question 1, over three quarters of the employment tax gap arises from underreporting noncompliance by self-employed taxpayers (an estimated \$51 billion to \$56 billion of the \$66 billion to \$71 billion in employment tax underreporting for tax year 2001). Employment taxes and income taxes for self-employed taxpayers are largely assessed on the same income. Therefore, any action to increase the visibility of such income would likely result in higher levels of compliance for both income and employment taxes owed by these taxpayers. For example, requiring tax withholding on payments made to self-employed individuals

²GAO-05-527T, *Tax Administration: Approaches for Improving Independent Contractor Compliance*, GAO/GGD-92-108 (Washington, D.C.: July 23, 1992).

who provide services (e.g., independent contractors) or to partners or shareholders of certain pass-through vehicles (e.g., partnerships or Subchapter S corporations), could ensure that IRS receives some of their tax liabilities. Similarly, requiring more or better information return reporting for independent contractors could improve their compliance.³

3. Do you think that better coordination between the IRS and state licensing agencies is a viable way to identify potential Social Security employment tax offenders? Does the IRS have any efforts under way at this time?

Yes, data from state licensing agencies likely could provide some viable leads for IRS to pursue in identifying noncompliance related to the employment tax gap. IRS has used data from states in the past to propose employment tax adjustments, such as the results of state audits. However, we have not evaluated IRS's use of state data, particularly data on business licenses, and consequently do not know its potential for assisting IRS.

For IRS, the utility of state data, such as licensing data, depends on a number of factors. For example, the state data could vary in quality and reliability, requiring work on IRS's part to make it useful. Also, licensing data itself may only be of limited use because IRS would not necessarily know if licensed entities have employees, use independent contractors, or otherwise have an employment tax liability. If IRS could identify businesses that have not filed required employment tax returns through the use of state licensing agency data, IRS also would have to make resources available to assess and collect unpaid employment taxes as part of its effort to obtain the unfiled employment tax returns.

Reducing the Tax Gap

1. What impact will the proposed FY 2006 budget for the IRS (i.e., increases in enforcement and decreases in taxpayer service) have on the tax gap?

2. What impact would the proposed increase in enforcement have even if the resources for taxpayer service were restored?

It is difficult to tell what the impact of the proposed IRS fiscal year 2006 budget, including the resources devoted to enforcement and taxpayer service, would be on the tax gap because it is difficult to determine the impacts that IRS's enforcement and service efforts have on the tax gap.

IRS officials have mentioned a return of over \$4 in taxes for every \$1 of its budget. However, such a return on investment varies by enforcement program or by compliance issue. Beyond the direct tax revenue IRS collects through enforcement actions, additional enforcement efforts may have an indirect revenue effect by deterring noncompliance in the future. IRS researchers have found it difficult to measure the indirect effect of its enforcement efforts but have maintained that the indirect revenue effects could far exceed the direct revenue effects.

³GAO/GGD-92-108.

In determining and allocating enforcement resources, it will be important to consider a number of factors:

- What types of enforcement efforts should IRS undertake to maximize resources?
- What types of noncompliance should the efforts cover?
- What would be the cost of focusing on specific types of noncompliance?
- How would success be measured in terms of direct revenue or indirect revenue?

Incidentally, the same types of factors could be considered for any budget investments made in service efforts to reduce the tax gap.

Regardless of any increase to IRS's enforcement budget, a time lag is likely between when IRS starts or expands enforcement programs and assesses and collects additional taxes. It will take time for IRS to procure necessary equipment and facilities, hire new staff, and train new and existing staff. In the short term, direct enforcement revenue may decrease to the extent that more experienced staff are shifted away from enforcement activities to help train new staff and develop new program requirements, such as special compliance initiatives.

In terms of service efforts, providing quality services to taxpayers can improve compliance among those taxpayers who want to comply. However, IRS has also found it difficult to measure the effect of its service efforts on voluntary compliance. As such, it is difficult to determine the effect that restoration of taxpayer service resources from the proposed fiscal year 2006 budget would have.

3. What is the ideal budget for the IRS, and the ideal mix of the budget between taxpayer service and enforcement, over a sustained period in order to make meaningful reductions in the tax gap? Please explain.

The ideal IRS budget and the ideal mix between taxpayer service and enforcement have been the subject of substantial policy and budget debates. The proper allocation of resources between taxpayer service and enforcement ultimately needs to be answered by the Commissioner in consultation with the Congress. IRS's focus on service or enforcement has varied over time. Following the passage of the IRS Restructuring and Reform Act of 1998 (RRA '98),⁴ IRS placed an emphasis on improving its service efforts. Recently, IRS has begun to place a greater emphasis on enhancing its enforcement efforts. Although a number of studies have attempted to determine optimal levels of enforcement, these studies do not arrive at conclusions about what the balance between enforcement and taxpayer service should be.⁵

⁴Pub. L. No. 105-206 (1998).

⁵For a few examples, see the following research products. Janet McCubbin, *Optimal Tax Enforcement: A Review of the Literature and Practical Implications*, Office of Tax Analysis, Department of the Treasury, OTA Working Paper 90 (Washington, D.C.: December 2004), Alan H. Plumley, *The Determinants of Individual Income Tax Compliance: Estimating the Impact of Tax Policy, Enforcement, and IRS Responsiveness*, Internal Revenue Service, IRS Publication 1916 (rev. 11-96) (Washington, D.C.: 1996), and Alan H. Plumley and C. Eugene Steuerle, "Ultimate Objectives for the IRS: Balancing Revenue and Service," *The Crisis in Tax Administration*, edited by Henry J. Aaron and Joel Slemrod, 311-346, (Washington, D.C.: Brookings Institution Press, 2004).

Metrics on IRS's Progress in Improving Compliance and Reducing the Tax Gap

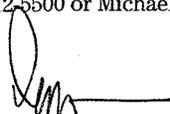
In addition to the information provided below, we will further discuss IRS's goals and measures related to improving compliance and reducing the tax gap in an upcoming report, scheduled to be released in July 2005.

IRS has various output- and outcome-related metrics related to increasing compliance. According to IRS officials, IRS is developing additional long-term goals and metrics in response to a President's Management Agenda initiative. We look forward to reviewing the goals and metrics that IRS develops.

Basic metrics on progress against the tax gap would measure the effect—outcome—of IRS's various compliance programs (both taxpayer service and enforcement programs) on the size of the tax gap and on the rate of tax compliance. Measuring outcomes in such terms may be challenging given the number of internal and external factors that make isolating the effect of IRS's actions difficult. However, as we have reported in the past,⁶ agencies have used various strategies to address similar challenges. For example, IRS could

- use research to establish clearer links between its activities (e.g., classifying and examining tax returns), outputs (e.g., number of examination cases closed), and desired end outcomes (e.g., increased dollars collected or improved levels of compliance),
- track separate performance goals for the different types of noncompliance, and enforcement efforts (e.g., targeting efforts),
- make use of survey instruments when other data are not readily available, and
- measure results periodically, especially if IRS determines that obtaining comprehensive compliance data on an annual basis is not practical.

For additional information on our work on the tax gap, please contact me at (202) 512-5500 or Michael Brostek, Director, Strategic Issues at (202) 512-9110.



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(450415)

⁶GAO, *Managing for Results: Measuring Program Results That Are Under Limited Government Control*, GAO/GGD-99-16 (Washington, D.C.: Dec. 11, 1998).



JOINT COMMITTEE ON TAXATION
April 12, 2005
JCX-18-05

**TESTIMONY OF GEORGE K. YIN
CHIEF OF STAFF
OF THE
JOINT COMMITTEE ON TAXATION**

**AT A HEARING OF THE SENATE COMMITTEE ON FINANCE ON
“THE \$350 BILLION QUESTION: HOW TO SOLVE THE TAX GAP”**

April 14, 2005

Mr. Chairman, Senator Baucus, members of the Committee, I am pleased to testify today about the “tax gap” and ways to reduce it.

The “tax gap” is the difference between the amount of tax owed by taxpayers (from legal activities) and the amount voluntarily paid on time. According to recent estimates provided by the IRS, the gross tax gap is over \$300 billion per year, representing about 16 percent of the total tax owed by taxpayers from legal activities. The noncompliance rate for just the individual income tax, which represents the most reliable portion of the latest IRS study, is estimated to be between 19 and 22 percent. To the extent a tax system fails to collect from taxpayers the amount of tax owed by them, every other policy objective of the system, whether it be horizontal equity, redistribution, efficiency, providing social or economic incentives, or simply financing governmental functions, is undermined. Thus, effective tax compliance and enforcement are core principles underlying any successful tax system.

As you know, the Joint Committee staff recently completed a report on “Options to Improve Tax Compliance and Reform Tax Expenditures,”¹ which was prepared in response to a request from the Chairman and Ranking Member. The report describes a range of options that attempt to address one or more of the many contributing factors to the tax gap and noncompliance. The report focuses on tax legislative changes that could be expected to improve compliance.

¹ Joint Committee on Taxation, *Options to Improve Tax Compliance and Reform Tax Expenditures* (JCS-02-05), January 27, 2005.

In my testimony today, I will briefly describe five general principles to follow in crafting tax legislation to enhance compliance. In addition to offering proposals to curtail specific loopholes, shelters, and unintended consequences under current law, the Joint Committee staff report contains a number of options that illustrate these general principles. I have appended to my testimony brief, non-technical summaries of each option in the report, with further detail and analysis provided in the report itself. I will be happy to respond to any questions regarding any of the proposals included in the report.

General Principles for Tax Legislation to Improve Compliance and Reduce the Tax Gap

1. Simplify the tax laws.

Much has been written about the benefits of simplification. In terms of ways to reduce the tax gap, I believe that simplification ranks as the most important.

Complex laws spawn many inadvertent errors as well as opportunities for intentional noncompliance. Complex laws also contribute to taxpayer confusion and real or perceived unfairness in the tax system. Studies have shown that taxpayers are less likely to be compliant if they perceive the tax system to be inequitable.

A number of the proposals in the Joint Committee staff report attempt to simplify the tax law and make it more fair. For example, the report proposes to simplify areas, such as those dealing with education and dependent care, in which there currently exist multiple tax provisions with similar goals but differing specific requirements. Another example is a proposal to simplify the taxation of minor children. The 2001 Joint Committee staff report on simplification² contains many other simplification proposals, including one to eliminate both the individual and corporate alternative minimum tax.

2. Rely on objective, third-party verification.

Raising the visibility of transactions increases the likelihood that their tax consequences will be reported correctly. It is not surprising, then, that information reporting and tax withholding by objective, third-parties to a transaction improve compliance. As between the two, withholding generally improves compliance more, both by collecting some tax from the transaction and by persuading taxpayers that any information reports accompanying the withholding will not be overlooked by the IRS. Thus, withholding may help to stimulate improved, voluntary reporting and payment of tax apart from any amounts actually withheld. Withholding also provides taxpayers with a gradual and systematic method to pay their taxes, thereby reducing the potential for a large liability at year end and resulting motivation to underreport income.

² Joint Committee on Taxation, *Study of the Overall State of the Federal Tax System and Recommendations for Simplification, Pursuant to Section 8022(3)(B) of the Internal Revenue Code of 1986* (JCS-3-01), April 2001. The recommendations are in Volume II of the report.

According to the most recent IRS report and consistent with earlier reports, the underreporting of “non-farm proprietor net income” -- in general, compensation income of sole proprietors not subject to wage withholding -- is the single largest contributor to the tax gap. To address this compliance problem, prior proposals have recommended the imposition of withholding on such payments. Withholding, however, may present significant burdens on the payor.

The Joint Committee staff report includes a proposal to impose withholding on certain government payments for goods and services that are not currently subject to withholding. Because such payments represent a significant part of the economy, the proposal can be expected to improve compliance to an important extent without burdening any private sector payors. The proposal thus attempts to balance the goals of improving compliance and not creating undue administrative burdens. The proposal exempts smaller governmental entities from the withholding requirement.

The staff report includes other options that follow this principle, including proposed information reporting for tax-exempt interest (the amount of which may be pertinent to a number of tax determinations) and consistent basis reporting for estate and income tax purposes.

3. Avoid having tax consequences depend upon difficult factual determinations.

Compliance difficulties often arise when tax outcomes are dependent on difficult factual determinations. Such rules present compliance burdens for the taxpayer, noncompliance opportunities, and law enforcement difficulties. The Joint Committee staff report contains a number of proposals designed to avoid having tax consequences depend upon such determinations. For example, the report includes proposals reducing reliance on the determination of fair market value in the estate and gift tax, charitable contribution, and other areas. Another example is a proposal to have alcohol excise taxes depend upon the alcoholic content of the beverage, a fairly straightforward factual determination, rather than the classification of type of beverage, a much more difficult factual inquiry.

In certain cases, reliance upon a difficult factual determination is unavoidable because it is an inherent feature of the tax system. For example, an income tax must be able to distinguish business from personal expenses, often a difficult factual issue. In these cases, compliance can be improved by providing rough, more administrable “rules of thumb” that attempt to approximate the result that would arise if facts were fully known and undisputed. Examples of this approach in the staff report include the application of the luxury auto limitations to sport utility vehicles, the allocation of nonrecourse deductions and the exclusion of nonrecourse liabilities from outside basis in the partnership area, and the employment tax treatment of owners of passthrough entities.

4. Treat income and deductions consistently.

The mismatched treatment of income and related deductions is a common sheltering technique. The mismatching can occur in a variety of different ways, including inconsistent treatment as to the amount, timing, and character of the items. For example, the allowance of a

deduction with respect to income that is exempt from tax may result in a net loss that can be used to shelter other, unrelated income from taxation.

The staff report contains a number of proposals to prevent this type of inconsistency. For example, the proposal to adopt a dividend exemption system for foreign business income addresses, among other things, the allowance under current law of deductions attributable to what is often effectively exempt income. Other examples include the proposed treatment of deductions (1) of interest on indebtedness allocable to tax-exempt income, (2) for the personal use of company aircraft and other entertainment expenses, and (3) for certain income attributable to property transfers in connection with the performance of services.

5. Supplement technical rules with standards.

Recent tax avoidance transactions have demonstrated that sophisticated taxpayers may rely on the interaction of highly technical legal provisions to produce tax consequences not contemplated by the Congress. Such efforts, if successful, increase the tax gap by allowing taxpayers to obtain unintended tax relief and by undermining overall respect for the tax system.

A strictly rule-based tax system cannot prescribe the appropriate outcome of every conceivable transaction or uncommon combination of steps that might be devised by taxpayers. As a result, to improve compliance, technical tax rules should be supplemented with anti-tax avoidance standards to assure that the Congressional purpose is achieved. On the other hand, excessive reliance upon tax avoidance standards may create undesirable uncertainty with respect to the tax treatment of ordinary business transactions.

The staff report contains a proposal to apply a higher level of judicial scrutiny only to the relatively uncommon transactions bearing the characteristics of tax shelters. In developing this proposal, the staff examined the characteristics of each listed transaction and a number of others, including transactions described in the Joint Committee staff report on Enron Corporation.³ By signaling to tax advisors and courts that tax rules should be interpreted in a manner consistent with Congressional objectives, the proposal may be expected to reduce tax shelter activity and the size of the tax gap.

* * *

The Joint Committee staff looks forward to working with the Committee on the proposals contained in the report, as well as in developing additional proposals to improve taxpayer compliance and reduce the tax gap.

Thank you for the opportunity to testify.

³ Joint Committee on Taxation, *Report of Investigation of Enron Corporation and Related Entities Regarding Federal Tax and Compensation Issues, and Policy Recommendations* (JCS-3-03), February 2003.



JOINT COMMITTEE ON TAXATION
April 12, 2005
JCX-19-05R

**SUMMARY OF JOINT COMMITTEE STAFF
“OPTIONS TO IMPROVE TAX COMPLIANCE
AND REFORM TAX EXPENDITURES”**

Pursuant to a request from Senate Finance Committee Chairman Charles Grassley and Ranking Member Max Baucus, the staff of the Joint Committee on Taxation issued a report on January 27, 2005, on various options to improve tax compliance and reform tax expenditures. This document provides a summary of those options.¹

I. TAX PROCEDURE AND ADMINISTRATION

**A. Impose Withholding on Certain Payments Made
by Government Entities**

Employers are required to withhold income tax on wages paid to employees, including wages and salaries of employees and elected officials of Federal, State, and local government units. Withholding rates vary depending on the amount of wages paid, the length of the payroll period, and the number of withholding allowances claimed by the employee. Withholding does not apply to most non-wage payments.

The lack of a withholding mechanism on non-wage payments leads to substantial underpayments of tax each year and has long been identified as contributing to the tax gap. According to the most recent IRS report on the tax gap and consistent with earlier reports, the underreporting of “non-farm proprietor net income” – in general, compensation income of sole proprietors not subject to wage withholding – is the single largest contributor to the tax gap. Payments made by Federal, State, and local governments represent a significant amount of those annual payments that are not subject to withholding. Imposing withholding on non-wage payments made by Federal, State, and local governments would improve taxpayer compliance, reduce the tax gap, and promote fairness.

¹ For a detailed description of the options, see the complete report: Joint Committee on Taxation, “Options to Improve Tax Compliance and Reform Tax Expenditures,” (JCS-02-05), January 27, 2005.

The proposal requires withholding at a three-percent rate on payments for goods and services² made by all branches of the Federal government and its agencies and all units of State and local governments. Local governments with less than \$100 million of annual expenditures are excluded from the withholding requirement. The proposal also imposes information reporting requirements on payments that are subject to withholding under the proposal but are not subject to information reporting under present law.

B. Require Partial Payments with Submission of Offers-in-Compromise

The Federal government may compromise any civil or criminal case arising under the internal revenue laws. In general, taxpayers initiate this process by making an offer-in-compromise, which is an offer by the taxpayer to settle an outstanding tax liability for less than the total amount due. The IRS currently imposes a user fee of \$150 on most offers, payable upon submission of the offer to the IRS. Taxpayers may justify their offers on the basis of doubt as to collectibility or liability or on the basis of effective tax administration. In general, enforcement action is suspended during the period that the IRS evaluates an offer. In some instances, it may take the IRS 12 to 18 months to evaluate an offer. Taxpayers are permitted (but not required) to make a deposit with their offer; if the offer is rejected, the deposit is generally returned to the taxpayer.

In general, submission of an offer indicates that the taxpayer is willing and able to make a partial payment of the taxpayer's liability. Because of the lengthy review process that the IRS undertakes prior to accepting an offer, there may be a substantial period of time before the IRS actually collects the amounts the taxpayer is willing to pay. Moreover, experience under present law has shown that in some cases taxpayers do not make offers in good faith (e.g., by concealing information from the IRS). Requiring partial payment with the submission of an offer-in-compromise will preserve the offer program for those cases in which it is appropriate, and will increase fairness for those taxpayers who pay their taxes in full. Thus, the proposal requires that a taxpayer make partial payments while the taxpayer's offer is being considered by the IRS. These payments are retained and applied to the taxpayer's outstanding balance, even if the taxpayer's offer is ultimately rejected as inadequate.

C. Clarify Standards of Scrutiny for Certain Transactions with Characteristics of Tax Shelters

Recent tax avoidance transactions have relied upon the interaction of highly technical tax law provisions to produce tax consequences not contemplated by Congress. A strictly rule-based tax system cannot prescribe the appropriate outcome of every conceivable transaction that might be devised and is, as a result, incapable of preventing all unintended consequences. Thus, many courts have long recognized the need to supplement tax rules with anti-avoidance standards, such as the "economic substance" doctrine, in order to assure the Congressional

² Thus, the proposal does not apply, for example, to welfare and other types of public assistance payments. The proposal also does not apply to the following: payments of interest; payments for real property; payments to tax-exempt entities or foreign governments; intra-governmental payments; and payments made pursuant to a classified or confidential contract.

purpose is achieved. Under present law, there is a lack of uniformity among the courts regarding the application of the economic substance doctrine.

The proposal provides a uniform standard for applying the economic substance doctrine to transactions having any of six characteristics present in many tax shelters.³ Under the uniform standard, for a transaction to have economic substance, a taxpayer must demonstrate that the transaction had a substantial non-tax purpose and changed the taxpayer's economic position in a meaningful way (apart from Federal tax consequences). The fact that financial accounting benefits would result from the desired tax treatment is not itself an allowable non-tax purpose. For transactions other than those with any of the six characteristics, the proposal retains present law.

³ The six types of transactions to which the proposal applies are transactions: 1) in which the taxpayer holds offsetting positions which substantially reduce the risk of loss and tax benefits would result from differing tax treatment of the positions; 2) which are structured to result in a disparity between basis and fair market value which creates or increases a loss or reduces a gain; 3) which are structured to create or increase a gain in any asset any portion of which would not be recognized for Federal income tax purposes if the asset were sold at fair market value by the taxpayer (or a related person); 4) which are structured to result in income for Federal income tax purposes to a tax indifferent party for any period which is materially in excess of any economic income to such party with respect to the transaction for such period; 5) in which the taxpayer disposes of certain property which the taxpayer held at risk for a period of less than 45 days; or 6) which are structured to result in a deduction or loss which is otherwise allowable for Federal tax purposes but not for financial accounting purposes. The Treasury Department may by regulations add or subtract types of transactions from this list.

II. INDIVIDUAL INCOME TAX

A. Provide Uniform Treatment for Dependent Care Benefits (secs. 21 and 129⁴)

Present law provides two separate tax benefits for dependent care expenses: the dependent care credit and the exclusion for employer provided dependent care expenses. Whether the credit or the exclusion is more favorable depends on the taxpayer's circumstances; however, in many cases the exclusion provides more favorable tax benefits. For example, the amount of the credit, but not the exclusion, is dependent on whether the taxpayer has one or more than one qualifying individuals; the credit is reduced for persons with incomes above certain levels, whereas the exclusion is not limited based on income; and, for taxable years beginning after 2005, the exclusion will continue to apply in determining alternative minimum taxable income, but the credit will not offset alternative minimum tax liability.

The two different provisions for similar expenses create inequity in the operation of the tax laws because the same benefit is not available to all taxpayers. The differing benefits also add to complexity as taxpayers may need to determine which provision produces the best tax result for them.

Under the proposal, the dependent care tax credit is the sole means of providing a tax benefit for dependent care expenses. The proposal is designed to provide greater equity among similarly situated taxpayers and simplify the treatment of dependent care expenses.

B. Combine Hope and Lifetime Learning Credits and the Above-the-Line Deduction for Higher Education Expenses (secs. 25A and 222)

The proposal combines the Hope and Lifetime Learning credits and the above-the-line deduction for qualified higher education expenses into a single credit. The proposal is intended to promote simplicity in delivering education tax benefits. The proposed credit applies on a per-student basis (as under the Hope credit) and to qualified education expenses for both graduate and undergraduate education without regard to enrollment status (i.e., half-time or otherwise) (as under the Lifetime Learning credit). Providing such benefits on a per-student basis, rather than a per-tax return basis (as is the case for the Lifetime Learning credit), would promote greater fairness by allowing the credit to vary more directly with the number of students in a family.

The credit equals 25 percent of the first \$10,000 of qualified expenses per student. The otherwise allowable aggregate credit per tax return is phased out by \$50 for each \$1,000 that adjusted gross income exceeds \$70,000 (\$140,000 if married filing a joint return).⁵ The credit is allowed against the alternative minimum tax.

⁴ Unless otherwise noted, all section references are to the Internal Revenue Code of 1986, as amended.

⁵ The credit rate, expense limitation, and phaseout ranges were chosen to create an approximately revenue neutral proposal over the period 2006-2014 under the assumption that the baseline includes

**C. Repeal Exclusion for Qualified Tuition Reductions
(sec. 117(d))**

If certain requirements are satisfied, present law provides an exclusion from gross income and wages for amounts received as a qualified tuition reduction. In general, a qualified tuition reduction is the amount of any reduction in tuition provided to employees of qualifying educational organizations for the education below the graduate level (including primary and secondary school) of the employee (and the employee's spouse and dependents) at such organizations or other qualifying educational organizations. The exclusion also applies to graduate level education in the case of a graduate student who is engaged in teaching or research activities at the educational organization. However, the exclusion does not apply to the extent the tuition reduction is payment for teaching or other services provided by the student.

The exclusion for qualified tuition reductions raises fairness concerns because it is available only to a limited group of taxpayers, as compared to other present-law provisions which provide tax benefits relating to education much more broadly. The exclusion also adds complexity and a source of noncompliance due to the need to make factual determinations in some cases, for example, determining if the tuition reduction is compensation for services.

The proposal repeals the exclusion for qualified tuition reductions. Under the proposal, such benefits are included in gross income and are treated as wages for employment tax purposes. Tuition reductions that are includible in income under the proposal would be eligible for the generally available benefits for education expenses, provided the requirements for such benefits are otherwise satisfied.

**D. Deny Refundable Child Credit When Section 911
Exclusion Is Elected (sec. 24)**

The refundable child credit is generally intended to apply to working families of sufficiently low economic income. Under present law, however, because earned income must be included in gross income in order to be considered earned income for purposes of the earned income credit and the refundable child credit, taxpayers working abroad and claiming an exclusion under section 911 are potentially eligible for a refundable child credit only if their income is sufficiently high. Specifically, the refundable credit becomes payable for taxpayers working abroad, and electing the section 911 exclusion, once the taxpayer's earned income exceeds \$90,900 (section 911 exclusion of \$80,000 plus the refundable child credit earned income threshold of \$10,900 for 2005). This permits certain high-income taxpayers to receive the refundable child credit, which is intended for low-income taxpayers. The proposal denies a refundable child credit to anyone claiming the section 911 exclusion.

permanent extension of the above-the-line deduction and extension of provisions allowing nonrefundable personal credits against the alternative minimum tax. These assumptions were made for purposes of illustrating a possible credit and are based on the law in effect for 2005.

**E. Repeal the Deduction for Interest on Home Equity Indebtedness
(sec. 163)**

Under present law, a taxpayer may deduct interest on a loan of up to \$100,000 secured by his or her residence. This deduction acts as a disincentive to savings and is unrelated to the purpose of encouraging home ownership. Further, the present-law home equity indebtedness rules provide inconsistent treatment by allowing deductible interest for homeowners' consumption spending that is not allowed to similarly situated non-homeowners. Finally, the present-law rule that home equity interest is only deductible for indebtedness up to the amount that the fair market value of the home exceeds acquisition indebtedness adds complexity to the tax law by requiring the homeowner to determine the fair market value of the home on a periodic basis. The proposal repeals the deduction for interest on home equity indebtedness.

**F. Limit the Exclusion for Rental Value of a Residence Rented
for Fewer than 15 Days (sec. 280A)**

Gross income generally includes all income from whatever source derived, including rent from real property. Present law provides a de minimis exception to this rule if a dwelling unit is used during the taxable year by the taxpayer as a residence and is rented for fewer than 15 days during the taxable year. In this case, the rental income is not included in gross income. No deductions attributable to such rental use are allowed.

The present-law 15-day rule inaccurately measures economic income by excluding rental income earned by the taxpayer. The amount of the untaxed income can be significant even for fewer than 15 days' rental. A dollar limitation in conjunction with the 15-day rule would more accurately function as a de minimis threshold than a rule based exclusively on the rental period.

The proposal limits the total exclusion for the rental value of a residence rented fewer than 15 days to \$2,000. Under the proposal, a taxpayer may claim the otherwise allowable deductions attributable to such rental use (e.g., depreciation) reduced in proportion to the ratio of excludable rental income to total rental income from the property.

**G. Extend Pro-Rata Basis Allocation Requirement to All Part-Gift,
Part-Sale Transactions (sec. 1011)**

In general, when a taxpayer sells part of a larger property, the taxpayer is required to allocate basis to the portion sold based on that portion's fair market value. Present law governing bargain sales to charities is consistent with this principle. Present law for other bargain sales, however, departs from this general rule and allocates the entire basis to the sale portion, thereby reducing the taxable gain for taxpayers making those sales. As a result, similar transactions are treated differently. Moreover, the taxable gain of each party to a part-gift, part-sale transaction not involving a charity is measured incorrectly.

The proposal extends to all part-gift, part-sale transfers the present law pro rata basis allocation rule applicable to bargain sales to charities. Consequently, for determining gain from any bargain sale, the proposal requires a taxpayer to allocate to the sale portion of property an amount of basis equal to that portion's pro rata share, based on respective fair market values, of the entire property's adjusted basis.

H. Simplify Taxation of Minor Children (sec. 1)

The amount of net unearned income of a child under age 14 that exceeds an annual inflation-adjusted amount generally is taxed at the parents' highest marginal rate. This is commonly referred to as the "kiddie tax" and is designed to lessen the effectiveness of intra-family transfers of income-producing property. Without the kiddie tax, certain parents in high tax brackets could reduce their family's overall income tax liability by shifting income-producing property to their children, who generally fall into lower tax brackets. In some circumstances, parents may elect to treat their children's income as their own, which avoids the need to file multiple tax returns but may result in higher tax liability.

The present-law kiddie tax provisions are complex and lead to uncertainty about the tax rate that will apply to a child's unearned income. A main source of complexity is that present law requires a linkage between the child's return, the parent's return, and if applicable, the returns of the child's siblings. This linkage increases complexity in the initial filing of the child's return, and in subsequent filings or proceedings if the return of the child, the parent, or a sibling is amended or adjusted under audit. The rules are further complicated depending on whether the child's parents file jointly, separately, are married, unmarried, or remarried.

The proposal generally increases the age of children to which the kiddie tax provisions apply from under 14 to under 18. The proposal also eliminates the parental election and subjects a child's unearned income in excess of an exemption amount to the highest individual income tax rate applicable to income of that character, rather than to his or her parents' marginal rate. Thus, under the proposal, a child's income tax liability would no longer be determined by reference to parental income or filing status.

III. EMPLOYMENT TAXES

A. Provide Consistent FICA Treatment of Salary Reduction Amounts (sec. 3121(a))

Present law provides inconsistent treatment of salary reduction amounts for purposes of the Federal Insurance Contributions Act ("FICA"). Contributions made to tax-favored retirement plans by salary reduction are wages that are subject to FICA taxes. However, salary reduction amounts used to provide certain other benefits are exempt from FICA taxes, such as health benefits and dependent care assistance provided under a cafeteria plan and qualified transportation fringe benefits.

Legislative history indicates that the treatment of contributions made to tax-favored retirement plans by salary reduction as FICA wages is intended to assure that salary reduction amounts are included in the FICA base. Otherwise, individuals could, in effect, control which portion of their compensation is included in wages for Social Security purposes. This rationale applies equally to salary reduction amounts used to provide benefits under a cafeteria plan or qualified transportation fringe benefits.

The proposal provides consistent treatment of salary reduction amounts for FICA purposes. Specifically, salary reduction amounts used to provide benefits under a cafeteria plan or to provide qualified transportation fringe benefits are included in FICA wages in a manner similar to salary reduction contributions to employer-sponsored retirement plans.

B. Conform Calculation of FICA Taxes and SECA Taxes (sec. 1402(a)(12))

The Social Security Act amendments of 1983 were intended to place taxes paid under the Self Employment Compensation Act ("SECA") on the same economic footing as FICA taxes. This involved equalizing the FICA and SECA tax rates for the first time. At the same time, self-employed taxpayers were allowed a deduction from self-employment earnings in recognition of the fact that such earnings include the "employer share" of SECA taxes, whereas FICA tax rates apply to wages exclusive of the employer share of FICA tax. However, due to a mathematical inconsistency in the calculation of the deduction for SECA purposes, self-employment income is taxed more favorably than wages. The proposal modifies the formula for calculating the deduction from self-employment earnings to make SECA taxes economically equivalent to FICA taxes.

C. Extend Medicare Payroll Tax to All State and Local Government Employees (sec. 3121(u)(2))

Under present law, employees of the Federal government and private employers are subject to Medicare payroll taxes, regardless of their dates of hire. However, certain State and local government workers are not covered by Medicare or the corresponding payroll taxes if they were hired before March 31, 1986. State and local government employees who are not subject to Medicare taxes may receive the same benefits as other workers, either through other employment or spousal coverage. The proposal extends Medicare and the corresponding payroll taxes to State and local government employees regardless of their date of hire.

**D. Modify FICA Tax Exception for Students
(sec. 3121(b)(10))**

FICA taxes do not apply to compensation for services performed in the employ of a school, college, or university by a student who is enrolled and regularly attending classes at such institution (referred to as the “student exception”). The legislative history of the student exception provides that the exception is intended to apply to situations in which the employment is part-time or intermittent and the total amount of earnings is only nominal, the payment of tax is inconsequential and a nuisance, and the related benefit rights are also inconsequential.

The scope of the exception has been the subject of uncertainty in recent years. It appears that the student exception may be viewed by certain taxpayers as applying more broadly to include situations that are similar to full-time employment. In addition, questions (and court cases) have arisen with respect to the application of the student exception to medical residents performing services at a university hospital or other medical facility. Although regulations issued by the IRS in December 2004 help to clarify the scope of the student exception, clear statutory standards would make the exception more administrable. In addition, the original intent of the exception can be implemented more effectively through a dollar limit.

The proposal codifies the IRS regulations relating to: (1) the definition of school, college, or university; and (2) student status. In addition, the proposal amends the student exception so that it applies only to individuals whose earnings from the school, college, or university are less than the amount needed to receive a quarter of social security coverage for the year (\$920 for 2005).

**E. Apply Employment Taxes to Sales Incentive Payments Made by Manufacturers
(secs. 3121 and 3401)**

Under current IRS guidance and practices, sales incentive payments made by manufacturers or distributors to employees of a dealer are not subject to either FICA or SECA taxes, even though such payments are compensation for services. Such payments, like other compensation paid to employees, should be subject to employment taxes.

Under the proposal, sales incentive payments made by manufacturers or distributors to sales people employed by dealers are wages for employment tax purposes. Thus, sales incentive payments are subject to FICA taxes (and income tax withholding).

**F. Modify Determination of Amounts Subject to Employment or Self-Employment
Tax for Partners and S Corporation Shareholders (sec. 1402)**

The employment tax treatment of members of a limited liability company (“LLC”) is uncertain. LLC members are generally treated as partners for Federal tax purposes but are neither general nor limited partners under applicable State law. LLC members may view themselves as comparable to limited partners, even though they are not limited partners under applicable State law. This uncertainty makes compliance with the law difficult for taxpayers and administration of the law difficult for the IRS.

It has become increasingly common for individuals who perform services in businesses that they own to choose the S corporation form to seek to reduce their FICA taxes. These S corporation shareholders pay themselves wages below the wage cap, while treating the rest of their compensation as a distribution by the S corporation in their capacity as shareholders.

More broadly, the discontinuities in the present-law employment tax treatment of general partners, limited partners, LLC members, and S corporation shareholders cause taxpayers' choice-of-business form decisions to be motivated by a desire to avoid or reduce employment tax, rather than by non-tax considerations.

Under the proposal, all partners – including general partners, limited partners, and LLC members taxed as partners – are subject to self-employment tax on their distributive share (whether or not distributed) of partnership income or loss. As under present law, specified types of income or loss are excluded from net earnings from self-employment of a partner, such as certain rental income, dividends and interest, certain gains, and other items. However, under the proposal, in the case of a service partnership, all of the partner's net income from the partnership is treated as net earnings from self-employment. If, however, any partner does not materially participate in the trade or business of the partnership, a special rule provides that only the partner's reasonable compensation from the partnership is treated as net earnings from self-employment.

Under the proposal, for purposes of employment tax, an S corporation is treated as a partnership and any shareholders of the S corporation are treated as general partners. Thus, S corporation shareholders are subject to self-employment tax under the same rules described above for partners.

IV. PENSIONS AND EMPLOYEE BENEFITS

A. Conform Definition of Qualified Medical Expenses (secs. 105, 106, 213, 220, and 223)

Under present law, prescription medicines (and insulin) are deductible under the rules relating to itemized medical expenses; over-the-counter medicines are not. However, individuals who work for an employer that has a health reimbursement arrangement or individuals who have a health savings account may purchase nonprescription medicines, such as aspirin and cough syrup, on a tax-favored basis. Under the proposal, with respect to medicines, the definition of medical expense for purposes of employer plans and health savings accounts would be conformed to the definition for purposes of the itemized deduction for medical expenses. Thus, for example, under the proposal, the cost of nonprescription medicines could not be reimbursed through a flexible spending arrangement. The proposal would provide greater equity in the tax treatment of medical expenses and would also eliminate a tax subsidy for what may be viewed as routine personal expenses.

B. Limit Deduction for Personal Use of Company Aircraft and Other Entertainment Expenses (sec. 274(e))

Section 274 disallows deductions for certain entertainment expenses. The deduction disallowance rule does not apply to expenses for goods, services, and facilities to the extent that the expenses are reported by the taxpayer as compensation and wages to an employee (or includible in gross income of a recipient who is not an employee).

In the context of an employer providing an aircraft to employees for nonbusiness (e.g., vacation) flights, the exception for expenses treated as compensation was interpreted by the Tax Court in *Sutherland Lumber-Southwest, Inc. v. Commissioner* ("*Sutherland Lumber*") as not limiting the company's deduction for operation of the aircraft to the amount of compensation reportable to its employees. This can result in a deduction many times larger than the amount required to be included in income. The American Jobs Creation Act of 2004 overturned *Sutherland Lumber*, but only with respect to covered employees.⁶

Permitting a business to deduct entertainment benefits provided to its employees in an amount greater than the compensation reportable to such employees effectively allows taxpayers to deduct personal expenses, contrary to general income tax principles. Congress curbed this practice in the American Jobs Creation Act of 2004, but only with respect to covered employees. The same rule applicable to all individuals would prevent the outcome more broadly and would simplify the law, thereby removing a potential source of noncompliance.

⁶ Covered employees are individuals who, with respect to an employer or other service recipient, are subject to the requirements of section 16(a) of the Securities and Exchange Act of 1934, or would be subject to such requirements if the employer or service recipient were an issuer of equity securities referred to in section 16(a). Such individuals generally include officers (as defined by section 16(a)), directors, and 10-percent-or-greater owners of private and publicly-held companies.

Under the proposal, in the case of all individuals, the exceptions to the general entertainment expense disallowance rule for expenses treated as compensation or includible in income apply only to the extent of the amount of expenses treated as compensation or includible in income. The proposal overturns *Sutherland Lumber* for all individuals.

**C. Limit Deduction for Income Attributable to Property Transferred
in Connection with the Performance of Services
to Amount Included in Income by the Service Provider (sec. 83)**

Section 83 governs the amount and timing of income and deductions attributable to transfers of property in connection with the performance of services. Under section 83, a deduction is allowed to the person for whom services are performed (the “service recipient”) equal to the amount “included” in the service provider’s gross income. Treasury regulations provide for a deduction by the service recipient equal to the amount included as compensation in the service provider’s gross income. The preamble to the regulations states that the “amount included” in gross income means the amount reported on an original or amended return or included in gross income as a result of an IRS audit of the service provider. The regulations also provide a special rule (sometimes referred to as a safe harbor), under which the service provider is deemed to have included an amount as compensation in gross income if the service recipient satisfies the reporting requirements with respect to that amount (i.e., the amount is reported on a Form W-2 or 1099 issued to the service provider).

In *Robinson v. United States*, the U.S. Court of Appeals for the Federal Circuit rejected the IRS interpretation that “included” means actual inclusion on the service provider’s tax return. The court instead interpreted “included” to mean the amount included in gross income as a matter of law (that is, the amount legally required to be included in the service provider’s gross income under section 83), without regard to the amount, if any, actually included on the service provider’s return or timely reported as compensation for services.

The amount of the deduction to which a service recipient is entitled as a result of a transfer of property in connection with the performance of services should be the amount actually included in the service provider’s income. This link helps to avoid mismatches in the amount of income and deductions attributable to such transfers. The elimination of this link under the *Robinson* decision increases the potential for such mismatches, thus creating tax administration and compliance issues.

The proposal overrides the *Robinson* decision and reaffirms that the amount of the deduction allowed with respect to a transfer of property in connection with the performance of services is determined by reference to the amount actually included in income by the service provider under section 83. The proposal also retains the safe harbor provided in Treasury regulations for an amount that is properly reported by the service recipient.

**D. Payments in Redemption of Stock Held by an ESOP Not Deductible
as Dividends (sec. 404(k))**

In general, a corporation may not deduct dividends paid to shareholders. Under section 404(k), a corporation generally may, however, deduct the amount of “applicable dividends” paid

in cash by the corporation with respect to applicable employer securities held by an employee stock ownership plan (“ESOP”). The dividend deduction is in addition to otherwise allowable deductions for contributions to the ESOP.

Some taxpayers have taken the position that payments in redemption of stock allocated to participants’ accounts under an ESOP and paid to a terminating or retiring participant in partial or full satisfaction of the plan’s obligations to pay benefits are deductible as dividends under section 404(k). The IRS issued a ruling on this issue in 2001, and held that such payments are not applicable dividends under section 404(k). However, the Court of Appeals for the Ninth Circuit in *Boise Cascade v. United States* held that such payments in redemption of the stock were deductible dividends under section 404(k).

Redemption payments like those involved in *Boise Cascade* are not the economic equivalent of a dividend. To allow a deduction for such payments would allow an employer a deduction for a transaction which is not a dividend and therefore was not intended to qualify for deduction. Further, allowing a deduction for these types of redemption payments would circumvent the deduction limitations applicable to ESOPs and could have an adverse impact on plan participants because they would lose substantial rights, such as the ability to make a tax-free rollover.

Under the proposal, redemption payments that are not economically equivalent to a dividend are not deductible under section 404(k). This result is accomplished by providing that, for purposes of determining whether an amount is deductible as a dividend under section 404(k), each ESOP participant is treated as the direct owner of any shares allocated to his or her account.

**E. Provide Greater Conformity for Section 403(b) and Section 401(k) Plans
(secs. 402(g), 403(b), and 415(c)(3))**

Present law permits tax-deferred savings through salary reduction under certain employer-sponsored retirement plans, including qualified cash or deferred arrangements (“section 401(k) plans”) and tax-sheltered annuity plans (“section 403(b) plans”). Taxable employers are entitled to a current deduction for salary reduction contributions, while employees who make salary reduction contributions generally do not include such contributions or the earnings on the contributions in gross income until such amounts are distributed. Permitting employees to make tax-deferred contributions is intended to encourage retirement income savings.

Although many of the rules for section 401(k) and 403(b) plans have been conformed over time, special rules for section 403(b) plans still exist under present law. Present law rules for section 403(b) plans relating to the definition of includible compensation, additional elective deferrals, and nondiscrimination requirements are inequitable and create complexity in many cases. The proposal provides greater conformity of the rules for section 401(k) and section 403(b) plans by eliminating these special rules and applying the rules relating to section 401(k) plans.⁷

⁷ Under the proposal, the definition of compensation applicable to section 403(b) plans for purposes of the limit on annual additions is conformed to the definition of compensation applicable to

F. Extend Early Withdrawal Tax to Eligible Deferred Compensation Plans of State and Local Governments (sec. 72(t))

Present law imposes a 10-percent early withdrawal tax on distributions from qualified pension plans and similar tax-favored retirement savings vehicles. Subject to certain exceptions, the tax applies to withdrawals before age 59½ (55 in the case of certain retirement distributions), death, or disability. The early withdrawal tax discourages early withdrawals of amounts that are intended as retirement savings and also recaptures a measure of the tax benefits that have been provided. Governmental section 457 plans provide benefits similar to those provided under qualified retirement plans (e.g., the benefits are set aside in a funded trust for the exclusive benefit of plan participants), but the early withdrawal tax does not apply to such plans. The proposal extends the early withdrawal tax applicable to qualified retirement plans to governmental section 457 plans. The proposal would provide greater equity between the rules applicable to governmental section 457 plans and the qualified plans.

G. Modify Prohibited Transaction Rules for Individual Retirement Arrangements (“IRAs”) to Reduce Tax Shelter Transactions (sec. 4975)

Under present law, some taxpayers have used IRAs, particularly Roth IRAs, to engage in tax shelters which avoid the limitations on IRA contributions and inappropriately shelter income. These tax shelters artificially shift taxable income away from the IRA owner or from an entity controlled by the IRA owner to the IRA, a tax-exempt entity. In 2004, the Treasury Department identified certain of such transactions as listed transactions.

Present law prohibits various self-dealing transactions between certain tax-preferred retirement plans, including IRAs, and disqualified persons. The proposal is designed to restrict the ability of IRAs to be used in shelter transactions by expanding the definition of disqualified persons. Under the proposal, all IRA owners and entities established by an IRA owner are disqualified persons.

H. Repeal Pick-Up Rules for Employee Contributions to State or Local Governmental Retirement Plans (sec. 414(h))

Employer contributions to a qualified retirement plan are not includible in an employee’s income at the time of contribution and are not wages for purposes of FICA taxes. Employee contributions to a defined benefit pension plan are made on an after-tax basis, that is, they are included in income at the time of contribution. Employee contributions are also subject to FICA taxes.

defined contribution plans generally, including section 401(k) plans. The special rule permitting contributions to a section 403(b) plan for an employee for up to five years after termination of employment is eliminated. The proposal eliminates the special rule for section 403(b) plans which permits employees who have completed 15 years of service with certain employers to make additional elective deferrals. The proposal applies the actual deferral percentage test to elective deferrals under section 403(b) plans. As under present law, State and local government employers are not subject to the actual deferral percentage test under the proposal.

Under a special rule, in the case of a plan maintained by a State or local government, if contributions are designated as employee contributions, but the State or local governmental employer “picks up” (i.e., pays) the contributions, contributions so picked up (“pick-up contributions”) are treated as employer contributions. As a result of being treated as employer contributions, pick-up contributions are not includible in employees’ income at the time of contribution. In addition, pick-up contributions are generally exempt from FICA taxes unless made pursuant to a salary reduction agreement.

The pick-up rules result in inconsistent tax treatment of employee contributions to qualified retirement plans. Employee contributions made to plans maintained by private employers or by the Federal government are includible in income. However, the pickup rules allow employee contributions to State and local governmental plans to be made on a pre-tax basis. In many cases, inconsistent treatment applies also for FICA tax purposes. These inconsistencies cause inequity in the tax system.

The proposal repeals the pick-up rules. Accordingly, contributions to a State or local government plan that are designated as employee contributions under the plan are treated as employee contributions for Federal tax purposes. Thus, such contributions are includible in income and are wages for FICA purposes.

V. CORPORATE AND PARTNERSHIP PROVISIONS

A. Modify Extraordinary Dividend Rules for Common Stock (sec. 1059)

Present law contains rules requiring the basis of stock to be reduced by the portion of certain “extraordinary” dividends that is not taxed due to the dividends received deduction for portfolio and certain other corporate shareholders. Present law is intended to prevent “dividend stripping” transactions. In such transactions, a taxpayer purchases stock prior to a very large dividend for a price that reflects the expectation of the dividend, receives the dividend, and then sells the stock for a loss, at a price that reflects the reduction in value following the payment. If the dividend is taxed at a rate lower than the rate imposed on income that can be sheltered by the loss, and if the basis of stock is not reduced by any portion of the dividend received, tax benefit can result without any true economic loss to the taxpayer.

Generally, among other requirements, a quarterly common stock dividend is an “extraordinary dividend” if it exceeds 10 percent of the taxpayer’s adjusted basis for the stock (or, if greater, fair market value of the stock that can be proven to the satisfaction of the Treasury). The threshold for preferred stock dividends is five percent.

The proposal reduces the threshold for common stock extraordinary dividends from 10 percent to five percent of the taxpayer’s adjusted basis (or, if greater, fair market value of the stock that can be proven to the satisfaction of the Treasury). The proposal addresses the fact that some very large dividends can still result in dividend stripping transactions under present law.

B. Reduce Tax-Indifferent Shareholder’s Basis in Stock by Nontaxed Portion of Extraordinary Dividend (sec. 1059)

The existing extraordinary dividend rules (described above) require basis reduction if a dividend payment subject to those rules is not taxed in full because of the dividends received deduction. Thus, for example, if a corporation buys stock for \$100 and shortly thereafter receives a \$10 dividend on that stock for which a 70-percent dividends received deduction is allowed, the corporation is required to reduce its basis in the stock by an amount equal to the untaxed portion of the dividend (\$7). The intent of these rules is to prevent the taxation of a dividend at a low rate with a corresponding capital loss allowable at a higher rate.

This basis reduction rule does not apply if a dividend payment is partly or entirely exempt from U.S. taxation for reasons other than the dividends received deduction. Consequently, in certain redemptions that are treated as dividends but are not subject to full U.S. taxation, tax basis is preserved and may under present law be shifted to a shareholder whose stock is not redeemed. This shifting of basis may be from a tax-indifferent shareholder – a foreign person or tax-exempt organization – to a taxable shareholder. If the shift is to a taxable shareholder, that shareholder can use the additional basis to generate a tax loss on a subsequent disposition of the stock to which the basis has been shifted. Thus, the combination of failing to reduce basis by the nontaxed portion of an extraordinary dividend and the shifting of tax basis to a taxable person creates a taxable loss without corresponding taxable income. This result is contrary to the outcome intended by the extraordinary dividend rules.

The proposal extends the basis reduction rule described above to transactions in which extraordinary dividends (including certain redemptions treated as extraordinary dividends) are received by shareholders not subject to full, current U.S. taxation.

**C. Modify Active Business and Control Requirements for Section 355
Corporate Divisions (sec. 355)**

The original purpose of the section 355 rules that allow a corporation to “spin off” a subsidiary to shareholders without tax was to permit existing shareholders to separate existing businesses for good business purposes without immediate tax consequences. The rules generally require each separated corporation to contain at least one active trade or business held for at least five years and require the distributed corporation to be controlled by the distributing corporation under a specified equity relationship prior to the spin-off.

The proposal confines section 355 more closely to this purpose by limiting its use in the case of transactions that give shareholders an interest in a separate corporation that has more than 50 percent cash or other assets that are not qualifying 5-year active business assets, and by requiring a higher standard of continuing participating equity ownership by the same shareholders.

**D. Modify Application of Unrelated Business Income Tax to S Corporation
Shareholders (sec. 512)**

The S corporation rules were designed to require that all income of an S corporation be subject to tax at the shareholder level. This purpose should be carried out by making sure that all S corporation shareholders, including tax-exempt entities, pay tax on their share of income from the S corporation.

Under the proposal, a tax-exempt entity (other than a qualified employee stock ownership plan) is a permissible shareholder of an S corporation only if it is subject to tax on its share of S corporation income.

**E. Modify Safe Harbor for Allocation of Partnership Nonrecourse Deductions
and Exclude Nonrecourse Liabilities From Outside Basis
(secs. 704 and 752)**

Present law with respect to the allocation of partnership nonrecourse deductions is ineffective in requiring partners to allocate nonrecourse deductions in a manner consistent with their overall economic arrangement. This issue has become more serious as a result of the dramatic increase in the use of LLCs which has occurred since the nonrecourse deduction rules were originally promulgated. Partners have significant flexibility to allocate nonrecourse deductions in a tax-motivated manner which is inconsistent with their overall economic arrangement. Because the allocation of nonrecourse deductions is generally free of any non-tax economic consequences, partnerships may use such allocations to shift taxable income from one partner to another in a manner which reduces the tax liability of the partners in the aggregate.

The proposal modifies the present-law safe harbor requirement that allocations must be reasonably consistent with the allocation of some other significant item. Under the proposal, the

allocation of nonrecourse deductions must bear some relationship to the partners' overall economic arrangement rather than merely to one specific partnership item.⁸

In addition to the safe harbor modification, the proposal provides that nonrecourse liabilities of the partnership are excluded from a partner's outside basis. As a result, a partner's outside basis is increased only by contributions of money or property, distributive shares of income, gain, and tax-exempt income, and a portion of any recourse liability of the partnership.

**F. Modify Adjustment Rules for Basis of Undistributed Partnership Property
(sec. 734)**

Present law provides that the basis of partnership property is to be adjusted as the result of a distribution of property if the partnership has so elected, or if there is a substantial basis reduction with respect to the property distributed (i.e., a basis reduction in excess of \$250,000). The purpose of the basis adjustment is to ensure that the proper amount of partnership gain or loss not recognized in the transaction shall remain with the partnership following the distribution. However, the measurement of the basis adjustment is inaccurate in some cases under present law. The proposal corrects this error by making the basis adjustment reflect the difference between the basis to the partnership of the distributed property and the reduction which occurs in the distributee partner's proportionate share of the adjusted basis of the partnership property.

**G. Treat Guaranteed Payments to Partners as Payments to Nonpartners
(sec. 707)**

Under present law, if a partner receives a payment that is determined without regard to the income of the partnership, the payment is considered a guaranteed payment rather than a distributive share of partnership income. Another present-law rule provides that a partner who engages in a transaction with a partnership, other than in its capacity as a partner, is treated as if it was not a member of the partnership with respect to the transaction.

The statutory distinction between guaranteed payments and nonpartner payments has little continuing purpose. Eliminating the distinction would conform the income and deduction timing rules applicable to all payments to partners that are not based on partnership net income to the more generally applicable timing rules applicable to other taxpayers, would eliminate opportunities for manipulation of the tax rules, and would provide simplification benefits.

⁸ Specifically, under the new safe harbor, if the aggregate capital account balances and recourse liabilities of the partnership constitute at least 20 percent of the total capitalization of the partnership at the time the nonrecourse liability arises (using book values), then the partners may allocate nonrecourse deductions in accordance with the relative capital account balances of the partners. Alternatively, if there is a reasonable expectation of significant residual (or catchall) profits, then the partners may allocate the nonrecourse deductions in accordance with the residual profit sharing arrangement of the partners. In addition, any allocation arrangement which falls between relative capital account percentages and residual profit sharing percentages is acceptable if the required minimum capitalization and residual profit sharing expectation are both met.

Under the proposal, all compensation for services or use of capital that is not based on the net income (or an item of net income) of the partnership is treated as arising from a transaction between a partnership and a nonpartner. The income and deduction timing rule for guaranteed payments is repealed and such payments are subject to the income and deduction timing rules for nonpartner payments.

VI. INTERNATIONAL PROVISIONS

A. Amend the Employer-Provided Housing Exclusion and Impose a Stacking Rule with Respect to Non-Excludable Income (sec. 911)

Present law may allow an individual working abroad to exclude significant amounts of housing benefits. The employer-provided housing exclusion is equal to the excess of an individual's housing expenses over a base amount, but substantial amounts above the base may be excluded from income because the exclusion is limited to "reasonable housing expenses," which allows for generous interpretation by the taxpayer.

The proposal establishes an objective cap to determine "reasonable housing expenses." The Department of Housing and Urban Development ("HUD") considers maximum affordable housing to be 30 percent of an individual's annual income. The proposal also ties the employer-provided housing exclusion to the foreign earned income cap (\$80,000) to bring the two exclusions into conformity. With these two modifications, the objective cap on employer-provided housing is set at 30 percent of \$80,000.

Present law may also allow individuals working abroad to benefit from being subject to low income tax rates on their non-excludable income. The taxable income of section 911 beneficiaries is subject to rates that ordinarily are applicable to taxpayers with substantially less economic income.

The proposal imposes a stacking rule that requires individuals with section 911 benefits to stack their taxable income after their section 911 exclusion amounts, thereby subjecting such individuals to the same rates applicable to individuals living and working in the United States earning the same amount of economic income.

B. Amend Rules for Determining Corporate Residency (sec. 7701)

Present law provides that a corporation is treated as foreign for U.S. tax purposes if it is incorporated in a foreign jurisdiction. This is true even where all of a corporation's management activities, employees, business assets, operations, and revenue sources are located in the United States. Thus, the present-law test for determining corporate residency is artificial and allows certain foreign corporations that are economically similar or identical to U.S. corporations to avoid being taxed like U.S. corporations.

For publicly traded foreign-incorporated entities, the proposal adds new rules that look to a corporation's primary place of management and control. A corporation's primary place of management and control is where the executive officers and senior management of the corporation exercise day-to-day responsibility for the strategic, financial and operational policy decision making for the company (including direct and indirect subsidiaries). If a company is incorporated in the United States, it is still considered a domestic corporation and does not have to look any further to determine its residence.

C. Modify Entity Classification Rules to Reduce Opportunities for Tax Avoidance (sec. 7701)

In order to apply the various substantive rules of the Code to transactions involving business entities, the entities first must be classified, typically as corporations, partnerships, or branches. The classification of a business entity carries significant Federal tax consequences. For example, corporations generally are subject to tax at the entity level, whereas partnerships and branches generally are not. Transactions between a branch and its owner generally are disregarded for Federal tax purposes (including the anti-deferral rules of subpart F), subject to several exceptions. Since 1997, new entity classification regulations have been in effect that generally allow taxpayers simply to elect the desired classification for many types of entities, including certain limited-liability entities that are available under the laws of many foreign jurisdictions. These regulations are commonly referred to as the “check the box” regulations. It has been widely observed that the “check the box” regulations, while producing some simplification benefits with respect to both domestic and foreign entities, also have created some unintended tax-avoidance opportunities as applied to foreign entities. In particular, it appears that the availability of single-member disregarded entities has rendered it easy in many cases to avoid current taxation under subpart F.

The proposal strikes a balance between the goal of simplification and the policies reflected in the substantive provisions of the Code by generally retaining the elective approach of the current entity classification regulations, but providing that single-member business entities organized under foreign law must be treated as corporations for Federal tax purposes. This approach will not prevent every arrangement that might be thought to be abusive, as not all abuses require the use of a separate disregarded entity, but the approach will render it considerably more difficult in many cases for taxpayers to use the entity classification rules to frustrate the intent of the international tax provisions of the Code. A wide range of potentially abusive transactions that are currently disregarded for purposes of the substantive rules of the Code would be “regarded” under the proposal, thereby providing a greater opportunity to apply and adjust those rules in an appropriate manner, whether that be to allow or to disallow a particular tax result.

D. Adopt a Dividend Exemption System for Foreign Business Income

It has long been recognized that the worldwide, deferral-based system of present law distorts business decisions in a number of ways. By establishing repatriation as the system’s principal taxable event, the worldwide, deferral-based system creates incentives in many cases to redeploy foreign earnings abroad instead of in the United States, thereby distorting corporate cash-management and financing decisions.

At the same time, basing the system on repatriation renders the payment of U.S. tax on foreign-source business income substantially elective in many cases, because repatriation itself is elective. By maintaining deferral indefinitely, a taxpayer may achieve a result that is economically equivalent to 100-percent exemption of income, with no corresponding disallowance of expenses allocable to the exempt income, provided that the taxpayer does not repatriate the earnings or run afoul of subpart F or other anti-deferral rules. In addition, taxpayers that repatriate high-tax earnings may be able to use excess foreign tax credits arising

from these repatriations to offset the U.S. tax on lower-tax items of foreign-source income, such as royalties received for the use of intangible property in a low-tax country. For these reasons, in many cases, the present-law “worldwide” system actually may yield results that are more favorable to the taxpayer than the results available in similar circumstances under the “territorial” exemption systems used by many U.S. trading partners. These systems generally fully tax foreign-source royalties and portfolio-type income, and often exempt less than 100 percent of a dividend received from a subsidiary, as a proxy for disallowing expenses allocable to the exempt income. At the same time, however, the potential for taxation under the U.S. system by reason of either repatriation or application of the highly complex U.S. anti-deferral rules arguably forces U.S.-based multinationals to contend with a greater degree of complexity, and to engage in a greater degree of tax-distorted business planning, than many of their foreign-based counterparts resident in countries with exemption systems. The proposal would replace the current worldwide, deferral-based system with a dividend exemption system to mitigate many of these remaining problems, while generally moving the system further in the direction charted by the Congress in 2004.

VII. OTHER BUSINESS PROVISIONS

A. Disallow Deduction for Interest on Indebtedness Allocable to Tax-Exempt Obligations (sec. 265)

Present law disallows a deduction for interest on indebtedness incurred to buy or hold tax-exempt bonds. Under IRS rules for taxpayers other than financial institutions, this interest disallowance rule applies only if borrowing can be traced to the purchase or ownership of tax-exempt bonds (the “tracing rule”). Under these IRS rules, moreover, the interest disallowance rule generally does not apply if a taxpayer’s tax-exempt obligations represent two percent or less, by average adjusted basis, of the taxpayer’s aggregate trade or business assets. By contrast, a financial institution generally is denied a deduction for the portion of its interest expense that equals the ratio of the financial institution’s basis in its tax-exempt obligations to its basis in all its assets (the “pro rata rule”), and the two-percent safe harbor does not apply.

Unlike the pro rata rule, the tracing rule requires an inquiry into a taxpayer’s intent in borrowing. A taxpayer’s deduction for the interest expense of borrowing is subject to the tracing rule only if the taxpayer intends to use the proceeds of the borrowing to buy or hold tax-exempt obligations. Because intent is difficult to determine, and because a firm’s funds are fungible, the tracing rule has proven difficult to administer and easy to avoid. In particular, related corporations have avoided the tracing rule by engaging in borrowing through one corporation and the holding of exempt obligations by another corporation. Moreover, the two-percent safe harbor permits a certain amount of tax arbitrage.

The proposal extends to all corporations (other than insurance companies) the pro rata rule applicable to financial institutions under present law. Accordingly, the proposal generally repeals the tracing rule, and it repeals the two-percent safe harbor. Moreover, to restrict taxpayers’ ability to avoid interest disallowance through the use of related parties, the proposal treats all members of the same affiliated group as one taxpayer and treats any interest in a partnership held by a taxpayer as that taxpayer’s direct ownership interest in its allocable share of partnership assets and liabilities.

B. Modify Recapture of Section 197 Amortization (sec. 1245)

Under present law, it is difficult for the IRS to ensure that taxpayers recognize the appropriate amount of ordinary income recapture when multiple intangible assets are sold as part of a single transaction. Because ordinary income is recaptured only to the extent of ordinary deductions previously claimed with respect to each individual asset, taxpayers have an incentive to allocate less of the sales proceeds to intangible assets with respect to which significant amortization deductions have been claimed. Congress enacted section 197 to reduce controversies between taxpayers and the IRS with respect to acquisition of intangible assets, but the potential for controversy remains with respect to the subsequent disposition of section 197 intangibles.

Under the proposal, if multiple section 197 intangibles are sold (or otherwise disposed of) in a single transaction or series of transactions, the seller must calculate recapture as if all of the section 197 intangibles were a single asset. Thus, any gain on the sale (or other disposition) of

the intangibles is recaptured as ordinary income to the extent of ordinary depreciation deductions previously claimed on any of the section 197 intangibles. The proposal applies regardless of whether the intangibles were acquired as part of the same acquisition. If the sale transaction includes an intangible asset whose adjusted basis exceeds its fair market value, such intangible is not subject to recapture and is excluded from this aggregate calculation. The loss on such intangible continues to be permitted to the extent it is permitted under present law.

**C. Modify Application of Income Forecast Method of Depreciation
(sec. 167)**

Generally, films and television productions are among the types of property eligible for depreciation using the income forecast method. In some cases, the present-law rule relating to participations and residuals paid in connection with a film or television production allows taxpayers to deduct costs before they have been paid or incurred. This is because the basis used for calculating the income forecast deduction can differ from the property's actual adjusted basis. Taxpayers should not be permitted to deduct costs prior to the time such costs are paid or incurred, under principles that are generally applicable in determining the timing of deductions.

Under the proposal, depreciation deductions under the income forecast method would be disallowed to the extent that they would cause the adjusted basis for purposes of determining gain or loss on sale to become negative. Any disallowed deductions will effectively be carried over by operation of the income forecast formula in subsequent years.

**D. Apply Luxury Automobile Limitations to Sport Utility Vehicles
(sec. 280F)**

Under present law, certain vehicles which contain features that are not necessary for purposes of conducting business are not subject to the luxury automobile depreciation limitations. While Congress restricted the ability of certain sport utility vehicles to qualify for the expanded expensing provisions of section 179, such vehicles remain exempt from the luxury automobile depreciation limitation if they weigh more than 6,000 pounds and are therefore accorded more favorable treatment than are luxury sedans, sport utility vehicles, and pickup trucks weighing less than 6,000 pounds. Because the luxury automobile depreciation limitation and the section 179 expensing limitation appear to have the same rationale, it is appropriate to apply the luxury automobile depreciation limitation to the class of vehicles targeted by the section 179 expensing limitation.

When the luxury automobile limits were enacted, new car sales included far fewer trucks and vans than today, and those vehicles were more likely to be used in the operation of a business. Now, nearly half of all new vehicle sales are not automobiles, and many more of the larger vehicles are purchased as personal-use vehicles than they were previously. For these reasons, it is no longer appropriate to assume that the purchase of these larger vehicles is a likely indicator of 100 percent business use. Thus, an extension of the luxury automobile limits to these larger vehicles is appropriate.

Under the proposal, all vehicles subject to either the present-law luxury automobile depreciation limitation or to the present-law section 179 expensing limitation for certain sport utility vehicles are made subject to the luxury automobile limitation.

E. Disallow Deduction for Interest on Debt Allocable to Tax-Exempt Income of Insurance Companies (secs. 265 and 832)

A 15-percent proration rule applies to property and casualty insurance companies. In calculating its deduction for losses incurred, a property and casualty insurance company must reduce the amount of losses incurred by 15 percent of (1) the insurer's tax-exempt interest, (2) the deductible portion of dividends received (with special rules for dividends from affiliates), and (3) the increase for the taxable year in the cash value of life insurance, endowment or annuity contracts the company owns. A separate proration rule applies to life insurance companies.

The 15-percent proration rule applicable to untaxed income of property and casualty insurance companies does not effectively limit the companies' ability to engage in tax arbitrage. Applying a rule similar to the rule for other types of financial intermediaries would improve neutrality of the tax law by treating more financial intermediaries similarly, and would more effectively limit tax arbitrage.

The proposal extends to property and casualty insurers the pro rata interest disallowance rule that applies to financial institutions under present law section 265(b). As under the present-law rules for insurers, however, the proposal applies not only with respect to tax-exempt interest, but also with respect to the untaxed portion of dividends received and insurance inside buildup. The proposal does not change the tax treatment of life insurers.

F. Eliminate Double Deduction of Mining Exploration and Development Costs Under the Minimum Tax (sec. 57)

Present law allows the double deduction of the same mining exploration and development costs in computing alternative minimum taxable income. The proposal would prevent the double deduction.

VIII. EXEMPT ORGANIZATIONS

A. Require Five-Year Review of Exempt Status of Public Charities and Private Foundations and Annual Notice by Organizations Not Required to File Information Returns (sec. 508)

Under present law, charitable organizations are required to obtain a determination from the IRS that they are tax exempt as a charitable organization, and thus eligible to receive deductible contributions. Typically, organizations apply for charitable status shortly after they are formed and the IRS generally must make its determination of such status based on statements of intent by the organization. However, once charitable status is granted, it rarely is revoked. Yet organizations may change and grow significantly over time, sometimes in ways inconsistent with their exemption. There is no mechanism in present law requiring a periodic review of the basis for an organization's charitable status.

The proposal requires that every five years, charitable organizations (other than churches) file with the IRS information that would enable the IRS to determine whether the organization continues to be organized and operated exclusively for exempt purposes. The proposal applies to new organizations and organizations receiving charitable status within ten years of enactment of the proposal. The filing would be done electronically, perhaps as a schedule to the current information return, and be made publicly available to encourage improved oversight of the sector by both the public and by State officials. The IRS would not be required to take action or make any determination with respect to a five-year review filing, but would have the discretion to review any filing and could revoke tax-exempt status retroactively or prospectively, as warranted by the facts and circumstances.

Part of this proposal also requires small charitable organizations that are exempt from the information return filing requirements to file with the IRS a short form each year to enable the IRS to maintain a record of the continuing existence of such organizations and provide the public with the ability to obtain basic information about the organization.

B. Impose Termination Tax on Conversions of Assets of Charities (secs. 501, 507, 4941, and 4958)

Related to the issue of an organization's ongoing basis for tax exemption is the effect of a public charity's dissolution, acquisition by a for-profit company, and other change of ownership or control. Federal tax law requires that upon dissolution, the charitable assets of the organization continue to be dedicated to charitable purposes. Yet there is no Federal enforcement mechanism of this requirement in the case of public charities. In contrast, upon their termination, private foundations generally are subject to a tax equal to the amount of the aggregate tax benefit received by the foundation over time (not to exceed the net asset value of the foundation), unless their assets are dedicated to charitable purposes.

In order to provide the Federal government with a means to enforce the "dedication to charity" requirement, the proposal imposes a termination tax on liquidations or conversions of a public charity. The tax would also apply to private foundation terminations, and differs from the present law termination tax principally in that the tax would be based on the net asset value of

the charity and not on the aggregate tax benefit. The tax could not be recovered against assets held by the charity for charitable purposes. The proposal also would impose the present-law excess benefit transaction rules to conversions of a public charity if, after the conversion, insiders of the public charity are also insiders of the newly converted entity. This is intended to ensure that when insiders are involved in the acquisition of a charitable organization, the acquisition is subject to the present law rules that tax abusive insider transactions.

**C. Tax Involvement by Exempt Organizations in Tax-Shelter Transactions
(secs. 6011 and 6707A)**

One of the primary compliance concerns in tax law today is abusive tax shelters. The increasing involvement of exempt organizations as accommodation parties in tax shelter transactions is a growing concern. Such transactions contribute to the erosion of the tax base by improperly extending the benefit of tax exemption to nonexempt persons. Tax shelters involving exempt organizations also raise questions about whether the facilitation of tax avoidance by an exempt organization can be consistent with the basis for tax exemption. Although recent legislation addressed many tax shelter abuses, such legislation does not prevent certain abuses that might be perpetrated using exempt organizations.

The proposal imposes an excise tax on the participation by any exempt organization (not just charitable organizations) in a transaction that the Treasury Department determines is a listed transaction, or a reportable transaction that is a confidential transaction or one with contractual protection. Under the proposal, if an exempt organization participates in such a transaction, knowing or with reason to know that the transaction is “prohibited,” the entity is subject to a tax of 100 percent of the entity’s net income attributable to the transaction. If the exempt entity is eligible to receive deductible contributions, the Treasury Department may suspend eligibility for one year. The entity-level tax does not apply to certain pension plans and similar tax-favored accounts. An excise tax would also apply to the entity managers that approved the entity’s participation in the transaction.

The proposal also addresses the case in which an exempt organization participates in a transaction that is later determined by the Treasury Department to be a prohibited tax shelter transaction. Because the exempt entity did not know at the time it entered into the transaction that it would later be prohibited, taxing all of the entity’s net income attributable to the transaction may not be appropriate. However, the proposal would impose an excise tax at the UBIT rate on the exempt organization’s net income from the transaction after it has learned that the transaction is prohibited. There also are obligations to disclose involvement in such transactions.

**D. Reform Intermediate Sanctions and Extend Certain Reforms
to Private Foundations (secs. 4941 and 4958)**

The intermediate sanctions regime was enacted in 1996 to provide a sanction short of revocation of tax-exemption in cases where the assets of a public charity or social welfare organization are used to benefit insiders. Since the enactment of intermediate sanctions, however, there continue to be reports of abuses by insiders and managers of public charities, as well as by private foundations. Compensation packages, loans, sales of property to insiders, and

other transactions, such as providing insiders equity opportunities in related for-profit organizations and joint ventures or in conversion transactions, increasingly are raising questions about the extent to which excess benefits are being provided to insiders of exempt organizations. Transactions with insiders create widespread opportunities for abuse, especially when the determination of whether a transaction passes muster depends upon a subjective determination of fair market value or reasonableness of compensation. Given the practical difficulties of enforcement of valuation questions, the continued reports of abuses, and the critical importance of ensuring that charitable assets are not used for private purposes, the proposal addresses specific aspects of the intermediate sanctions regime that impede enforcement and extends certain of these reforms to the self-dealing regime applicable to private foundations.

The proposal eliminates the rebuttable presumption of reasonableness contained in the intermediate sanctions regulations. The rebuttable presumption of reasonableness was intended to be an incentive for organizations to adopt procedures that, if followed, will protect against the occurrence of an excess benefit transaction. However, there appear to be no reasons to depart from normal tax rules by providing special treatment for organization managers and disqualified persons. Further, the rebuttable presumption of reasonableness may undermine the effectiveness of the intermediate sanctions regime by emphasizing process instead of substance, with the result that organization managers and insiders can use the process to reach a desired result with impunity. Under the proposal, the procedures that presently provide an organization with a presumption of reasonableness (i.e., advance approval by an authorized body, reliance upon data as to comparability, and adequate and concurrent documentation) generally will establish instead that an organization has performed the minimum standards of due diligence with respect to an arrangement or transfer involving a disqualified person. The proposal extends such minimum standards to transactions between private foundations and disqualified persons for purposes of the private foundation self-dealing rules, and imposes a tax on the organization (whether public charity, private foundation, or social welfare organization) unless it establishes that it operated consistent with the minimum standards of due diligence with respect to the transaction.

The proposal eliminates the special rule that provides that an organization manager's or foundation manager's participation ordinarily is not "knowing" for purposes of the intermediate sanctions and self-dealing excise taxes if the manager relied on professional advice. Instead of providing a special rule, reliance on professional advice that a transaction is not an excess benefit transaction generally would be a favorable factor showing that the organization manager did not know the transaction provided an excess benefit. The proposal also provides that an initial contract between an organization and a person who was not a disqualified person immediately prior to entering into the initial contract is subject to the intermediate sanctions rules if such person would become a disqualified person upon (a) entering into the contract, or (b) under the terms of the initial contract, at any time within two years of the time the contract is entered into. Allowing initial contracts to escape the scrutiny of the intermediate sanction provisions permits an organization to provide a substantial excess benefit to a third party without any real threat of a sanction to a party to the transaction or to the organization managers.

**E. Increase the Amount of Excise Taxes Imposed on Public Charities,
Social Welfare Organizations, and Private Foundations
(secs. 4941, 4942, 4943, 4944, 4945, and 4958)**

Excise tax regimes that penalize certain conduct generally are effective if there is the right combination of a punitive sanction and the threat that the sanction will be enforced. In lieu of increasing the audit rate for such organizations, the proposal increases the amount of the sanction in order to impose an additional deterrent to prohibited behavior. The amount of the excise taxes applicable to private foundations has not been changed since their introduction in 1969. In recent years, audits of foundations and other section 501(c)(3) organizations generally has fallen significantly resulting in an increased likelihood that private foundations (and other charitable organizations) are not as compliant as when the audit rate was higher, and that the current excise tax rates are not providing a sufficient deterrent.

In general, the proposal doubles the amount of initial excise taxes with respect to certain activities by private foundations (self-dealing, failure to distribute income, excess business holdings, jeopardizing investments, and taxable expenditures), doubles the dollar limitation that applies to the tax on foundation managers with respect to certain of these actions, and doubles the dollar limitation on the organization managers tax for excess benefit transactions between public charities or social welfare organizations and organization insiders.

**F. Modify Charitable Deduction for Contributions of Conservation
and Facade Easements (sec. 170)**

Under present law, a charitable contribution deduction generally is not permitted for contributions of a partial interest in property. There is an exception for qualifying conservation contributions, which include easements and other partial interests in property that are for conservation purposes. Determining the value of conservation easements or similar partial interests is difficult. First, the value of the interest given away is a function of the contract terms crafted by the donor, and will vary from case to case. There may be few, if any, comparables to help determine value. Second, partial interests generally are harder to value than entire interests because of the donor's continuing interest in the contributed property. Third, in many cases, taxpayers who make these contributions are already subject to significant State and local restrictions on the use of their property. Such restrictions vary considerably from jurisdiction to jurisdiction and would have to be taken into account in valuing the interest.

Because these valuation difficulties present the greatest challenge in the case of conservation easements placed on property used by the taxpayer as a personal residence, the proposal denies a deduction for such contributions. For gifts of easements placed on other historic structures, the proposal permits a deduction equal to the lesser of 5 percent of the fair market value of the structure or 33 percent of the value of the easement. For all other gifts of conservation easements or other similar partial interests, the deduction would be limited to 33 percent of the value of the easement or interest. Moreover, the gift must be pursuant to some clearly articulated Federal, State, or local government policy in favor of the conservation objective. The proposal also imposes heightened appraisal standards and requirements in the case of these contributions.

G. Limit Charitable Deduction for Contributions of Clothing and Household Items (sec. 170)

Under present law, the deduction for charitable contributions of clothing and household items is the fair market value of such items, unless they have appreciated in value in the hands of the taxpayer. The relatively small value of any item of clothing or household goods makes it unlikely that the IRS challenges many of these deductions, leaving taxpayers with significant flexibility in valuing such gifts. Moreover, taxpayers may have a natural tendency to overvalue such items due to the attachment they have to the item. Because this situation is vulnerable to error and noncompliance, the proposal requires that at a minimum, the potential amount of error should be capped. Thus, the proposal suggests limiting the deduction for gifts of clothing and household goods to \$500. All of the current-law substantiation requirements would continue to apply in order for the deduction to be available.

H. Reform Rules for Charitable Contributions of Property (sec. 170)

Under present law, taxpayers are entitled to deduct the fair market value of most charitable contributions of capital gain property to a public charity. When property value is uncertain, this rule presents compliance burdens for the taxpayer, noncompliance opportunities, and law enforcement difficulties. Challenging taxpayer valuations is a very resource-intensive task for the IRS. Even a preliminary determination that the amount of a deduction may be questionable requires an upfront commitment of resources.

In general, for contributions of appreciated property (not including publicly traded securities, certain other property, and property that has depreciated in value, such as clothing and household items), the proposal requires that the charitable deduction be equal to the taxpayer's basis in the property. This is the present-law rule for contributions to most private foundations as well as contributions of certain property to public charities. In most cases, basis is a more certain amount than fair market value and subject to easier proof by the taxpayer and verification by the IRS. Thus, this option could be expected to improve compliance, reduce burdens and disputes, and lessen the amount of IRS enforcement effort. It would also eliminate the greater tax preference under current law provided to these types of property gifts than to contributions of cash. As an alternative, the proposal suggests that a basis deduction might apply only to taxpayers contributing property unrelated to the charity's exempt function. Under this alternative, for example, a taxpayer could still deduct the fair market value of an appreciated gemstone given to a natural history museum, but could deduct only the basis of appreciated closely held company stock or real estate contributed to the museum.

I. Require Public Disclosure of Form 990-T and Related Certification Requirements (secs. 6104 and 6685)

Although exempt organizations are required to file their unrelated business income tax returns with the IRS, the public does not have access to information pertaining to an organization's unrelated business activities that is included in the IRS returns. Public disclosure of nonproprietary trade or business information would provide the public an opportunity to review the extent and type of unrelated business activities an organization conducts, enabling the public to assess all of the activities being conducted by organizations it supports through tax-

deductible charitable contributions or through the tax exemption. In addition, more complete and accurate reporting of unrelated business activities conducted by large organizations would be improved by requiring independent auditors or counsel to make certain certifications regarding their review of such organizations' unrelated and other activities.

The proposal extends the present-law public inspection and disclosure requirements and penalties applicable to the information return to an organization's unrelated business income tax return. The proposal provides that certain information may be withheld by the organization from public disclosure and inspection if public availability would adversely affect the organization. In addition, the proposal requires that organizations that normally have annual total gross revenues or gross assets of at least \$10 million must include with its information and unrelated business income return filings a certification by an independent auditor or by independent counsel that the organization's filings accurately reflect the unrelated business income tax liability of the organization for the taxable year. The certifying auditor or counsel must also attest to whether it has knowledge regarding whether the organization has participated in or derived income from certain tax shelter transactions.

J. Expand the Base of the Tax on Private Foundation Net Investment Income (sec. 4940)

Case law casts doubt on the application of the tax on net investment income of private foundations. As a result, it is not clear under present law whether income from certain investments is subject to tax. The proposal clarifies the scope of the tax by amending the definition of gross investment income to include certain items of income not presently enumerated in the Code but identified in Treasury regulations, namely, income from notional principal contracts, annuities, and other substantially similar income from ordinary and routine investments. In addition, the capital gains and losses subject to the tax are modified to include capital gains from appreciation, including capital gains and losses from the sale or other disposition of assets used to further an exempt purpose. By broadening the definition of gross investment income, the proposal protects the tax base by providing certainty for taxpayers and administrators that income from annuities, notional principal contracts, and other substantially similar income from ordinary and routine investments are subject to the tax. Extending the tax to include all capital gain through appreciation produces neutrality in the treatment of investment assets.

K. Limit Tax-Exempt Status of Fraternal Beneficiary Societies that Provide Commercial-Type Insurance (sec. 501(c)(8))

Fraternal beneficiary societies that provide insurance are engaged in an activity whose nature and scope is inherently commercial rather than fraternal in nature. Congress has recognized that providing commercial-type insurance is a commercial business activity, and that granting tax-exempt status for organizations that engage in insurance activities gives an unfair competitive advantage to these organizations. Therefore, tax-exempt status is not appropriate for an organization unless no substantial part of its activities consist of providing commercial-type insurance. This is especially the case when the rationale for providing the exemption for an organization (i.e., that the organization provides benefits exclusively to members that share a

common, fraternal bond) has been eroded, and fraternal features are incidental to the insurance activity such that the organization is indistinguishable from a taxable insurance company.

Under the proposal, a fraternal beneficiary society, order, or association is exempt from tax as an organization described in section 501(c)(8) only if no substantial part of its activities consists of providing commercial-type insurance. For this purpose, no substantial part has the same meaning as under the present-law rule, and commercial-type insurance generally is any insurance of a type provided by insurance companies (including annuities). An organization that is treated as not exempt from tax under the proposal is subject to tax as if it were an insurance company, including with respect to its fraternal and other activities. In the case of an organization that is exempt from tax under the proposal, the activity of providing commercial-type insurance is treated as an unrelated trade or business, but is taxed under the rules relating to insurance companies with respect to such activity, rather than under the unrelated business income tax rules generally applicable to exempt organizations.

L. Establish Additional Exemption Standards for Credit Counseling Organizations (secs. 501(c)(3) and 501(c)(4))

An entire industry of credit counseling, credit repair, and debt management and debt consolidation has emerged over the past 30 years, with much of this activity conducted by nonprofit organizations that initially received favorable exempt status determinations from the IRS. During this period, judicial decisions relaxed exemption standards for credit counseling organizations claiming exempt status, ultimately resulting in many organizations conducting substantial activities that are not directly related to the charitable and educational purposes that initially formed the rationale for providing exemption from Federal income tax. Activities such as debt management plan and credit repair services test, and in many instances cross, the boundaries of what should be permissible activity for a charitable, educational, or social welfare organization. Legislation to establish exemption standards tailored to the peculiar aspects of the industry would provide greater certainty that further erosion of exemption standards does not occur, and strengthen enforcement of Federal and State consumer protection laws by limiting exemption from those laws to those organizations that satisfy stricter tax-exemption standards.

Under the proposal, a nonprofit credit counseling agency or other nonprofit organization that provides credit counseling, debt management, and similar services, is eligible for exemption from income tax only as a charitable or educational organization under section 501(c)(3), or as a social welfare organization under section 501(c)(4), and only if certain requirements are satisfied. In general, such requirements relate to an organization's primary activities, loan practices, fee arrangements, level and type of debt management plan activity, board of directors, referral policies, affiliations, and the solicitation of voluntary contributions.

IX. TAX-EXEMPT BOND PROVISIONS**A. Impose Loan and Redemption Requirements on Pooled Financing Bonds
(sec. 149)**

Gross income generally does not include interest received on State or local bonds. At times, State or local bonds are issued to provide financing for the benefit of a third party (a “conduit borrower”). Pooled financing bonds are issues in which the proceeds are used to make or finance loans to two or more conduit borrowers, unless the conduit loans are to be used to finance a single project.⁹ A pooled financing bond is not tax-exempt unless the issuer reasonably expects that at least 95 percent of the net proceeds will be lent to ultimate borrowers by the end of the third year after the date of issue.

A number of pooled financing bonds have been issued recently under which few or no loans were made to conduit borrowers from bond proceeds. A common feature of these transactions is the use of non-binding demand surveys that fail to adequately identify potential borrowers or evaluate current financing needs. Many of these transactions involve large issuances by small local governments that receive a fee to act as the issuer of the pooled financing. These transactions result in greater issuance of tax-exempt bonds than necessary to finance current governmental activities, diminishing the utility and value of the tax subsidy.

The proposal imposes new requirements on pooled financing bonds as a condition of tax-exemption. First, the proposal imposes a written loan commitment requirement to restrict the issuance of pooled bonds where potential borrowers have not been identified (“blind pools”). Second, in addition to the current three-year expectations requirement, the issuer must reasonably expect that at least 50 percent of the net proceeds of the pooled bond will be lent to borrowers one year after the date of issue. Third, the proposal requires the redemption of outstanding bonds with proceeds that are not loaned to borrowers within the expected loan origination periods. Finally, the proposal eliminates a special rule allowing an issuer of pooled financing bonds to disregard the pooled bonds for purposes of determining whether the issuer qualifies for the small issuer exception to arbitrage rebate.

**B. Amend Information Reporting Requirements to Include Interest on
Tax-Exempt Bonds (sec. 6049)**

Generally, gross income does not include interest on State or local bonds. However, the amount of interest received on tax-exempt bonds is pertinent to a number of tax determinations, including minimum tax liability, taxable Social Security benefits, and eligibility for the earned income credit. In addition, taxpayers are required to report the amount of tax-exempt interest received during the taxable year.¹⁰ Issuers of tax-exempt bonds, however, are not required to file information returns identifying the recipients of interest payments. The lack of a reporting requirement for interest payments on tax-exempt bonds may lead to incorrect reporting and erroneous calculations of tax liability by individual taxpayers.

⁹ Treas. Reg. sec. 1.150-1(b).

¹⁰ Sec. 6012(d).

Under the proposal, issuers of tax-exempt bonds are required to file information returns identifying the amount of interest payments in a calendar year and the name, address, and TIN of the person to whom interest is paid. The recordkeeping requirement imposed on issuers as persons required to file information returns may be satisfied by contracting with a third party to maintain the necessary information at the time bonds are issued.

**C. Clarify Limitations on Indian Tribes' Use of Tax-Exempt Bond Proceeds
(sec. 7871)**

Although not States or subdivisions of States, Indian tribal governments are provided with a tax status similar to State and local governments for specified purposes under the Code.¹¹ Among the purposes for which a tribal government is treated as a State is the issuance of tax-exempt bonds. However, bonds issued by tribal governments are subject to limitations not imposed on State and local government issuers. Tribal governments are authorized to issue tax-exempt bonds only if substantially all of the proceeds are used for essential governmental functions or certain manufacturing facilities.¹²

Despite the limitations on bonds issued by Tribal governments, there have been reports of transactions in which State or local governments issued tax-exempt bonds and loaned the proceeds to Indian tribes to finance the construction of casino-related facilities. It has been argued that bonds issued in connection with these transactions are tax-exempt because the restrictions on bonds financing the activities of tribal governments do not apply where the tribe is the borrower of bond proceeds rather than the direct issuer.

Under the proposal, section 7871, which allows Indian tribes to finance projects with tax-exempt bonds subject to certain limitations, is amended to clarify that it applies whether an Indian tribal government is a conduit borrower or an issuer of tax-exempt bonds. The proposal has no impact on the ability of Indian tribes to enter into legitimate borrowing transactions with States or local governments. Rather, the proposal clarifies the intent of Congress and provides that Indian tribes must use the proceeds of tax-exempt bonds in the same manner whether they are direct issuers of such bonds or conduit borrowers.

D. Eliminate Private Payment Test for Stadium Bonds (sec. 141)

Gross income generally does not include interest on State or local bonds. State and local bonds are classified generally as either governmental bonds or private activity bonds. Governmental bonds are bonds which are primarily used to finance governmental functions or are primarily repaid with governmental funds. Private activity bonds are bonds in which States or local governments provide financing to nongovernmental persons (e.g., private businesses or individuals). The Code defines a private activity bond as any bond that satisfies (1) the private business use test and the private security or payment test ("the private business test"); or (2) "the private loan financing test."

¹¹ Sec. 7871.

¹² Sec. 7871(c).

In 1986, Congress eliminated a provision expressly allowing tax-exempt financing for sports facilities. Nevertheless, professional sports facilities continue to be financed with tax-exempt bonds despite the fact that privately owned sports teams are the primary (if not exclusive) users of such facilities. This is because present law permits the use of tax-exempt bond proceeds for private activities if either part of the two-part private business test is not met. In the case of bond-financed professional sports facilities, issuers have intentionally structured the tax-exempt bond issuance and related transactions to fail the private payment test. In most of these transactions, the professional sports team is not required to pay for more than a small portion of its use of the sports facility. As a result, the private payment test is not met and the bonds financing the facility are not treated as private activity bonds, despite the existence of substantial private business use.

The proposal eliminates the private payment test for professional sports facilities. Under the proposal, bonds issued to finance a professional sports facility are taxable private activity bonds if more than 10 percent of the proceeds of the issue (including use of the bond-financed property) are to be used in the trade or business of any person other than a governmental unit, regardless of the amount of private payments received with respect to such use. A professional sports facility is defined as real property or related improvements used, in whole or in part, for professional sports. Use for professional sports includes any use by a nongovernmental person for sports exhibitions, games, or training which generates monetary benefit.

E. Require Allocation of Volume Cap to Mortgage Credit Certificates Based on Allocation of Volume Cap to Mortgage Bonds (secs. 25 and 143)

Gross income generally does not include interest on State or local bonds. State and local bonds are classified generally as either governmental bonds or private activity bonds. Governmental bonds are bonds which are primarily used to finance governmental functions or are primarily repaid with governmental funds. Private activity bonds are bonds in which States or local governments provide financing to nongovernmental persons (e.g., private businesses or individuals).

The exclusion from income for State and local bonds does not apply to private activity bonds, unless the bonds are issued for certain permitted purposes (“qualified private activity bonds”).¹³ The definition of a qualified private activity bond includes a qualified mortgage bond.¹⁴ Qualified mortgage bonds are issued to make mortgage loans to qualified mortgagors for the purchase, improvement, or rehabilitation of owner-occupied residences. As with most qualified private activity bonds, the aggregate volume of qualified mortgage bonds which may be issued in a State is restricted by annual volume limits (“volume cap”).

Qualified governmental units can elect to exchange all or a portion of their qualified mortgage bond authority for authority to issue mortgage credit certificates (“MCCs”).¹⁵ MCCs

¹³ Secs. 103(b)(1) and 141.

¹⁴ Sec. 143(a).

¹⁵ Sec. 25(c)(2).

entitle homebuyers to a nonrefundable income tax credit for a specified percentage of interest paid on mortgage loans on their principal residences.

MCCs provide a more efficient and stable mechanism for delivering the tax subsidy to potential homebuyers than qualified mortgage bonds. Despite this, the program is not widely used. For example, in 2002, \$4.6 billion of qualified mortgage bonds were issued, representing about 15 percent of States' private activity bond volume, compared to \$356.2 million of MCCs, representing about one percent of 2002 private activity bond capacity. The efficiencies that may be achieved through increased use of MCCs warrant requiring issuers to dedicate a portion of bond authority to the issuance of MCCs. Therefore, the proposal requires State and local issuing authorities to dedicate at least one dollar of volume cap to MCCs for every four dollars allocated to qualified mortgage bonds.

**F. Eliminate Advance Refunding of Governmental Bonds and 501(c)(3) Bonds
(sec. 149(d))**

Gross income generally does not include interest received on State or local bonds. State and local bonds are classified generally as either governmental bonds or private activity bonds. Bonds issued to finance the activities of charitable organizations described in section 501(c)(3) ("qualified 501(c)(3) bonds") are one type of private activity bond.

A refunding bond is defined as any bond used to pay principal, interest, or redemption price on a prior bond issue (the refunded bond). The Code contains different rules for "current" as opposed to advance refunding bonds. A current refunding occurs when the refunded bond is redeemed within 90 days of issuance of the refunding bonds. Conversely, a bond is classified as an advance refunding if it is issued more than 90 days before the redemption of the refunded bond.¹⁶ Proceeds of advance refunding bonds are generally invested in an escrow account and held until a future date when the refunded bond may be redeemed.

Although there is no statutory limitation on the number of times that tax-exempt bonds may be currently refunded, the Code limits advance refundings. Generally, governmental bonds and qualified 501(c)(3) bonds may be advance refunded one time.¹⁷ Private activity bonds, other than qualified 501(c)(3) bonds, may not be advance refunded at all.¹⁸ The Code limits advance refunding bonds because they represent an inefficient subsidy from the Federal government to State and local governments and section 501(c)(3) organizations because they result in two or more issues of tax-exempt bonds outstanding simultaneously for the financing of a single activity. For example, if tax-exempt bonds are issued to finance a building and a second issue of tax-exempt bonds is issued to advance refund the first bonds, the Federal government bears a

¹⁶ Sec. 149(d)(5).

¹⁷ Sec. 149(d)(3).

¹⁸ Sec. 149(d)(2).

revenue loss on both issues of bonds, resulting in a double subsidy for the same building.¹⁹ Thus, the proposal eliminates advance refundings of governmental bonds and 501(c)(3) bonds.

¹⁹ This is unlike refinancing a home mortgage loan where the original loan is retired at the time of the refinancing.

X. EXCISE TAXES

A. Modify the Federal Excise Tax on Communications Services (secs. 4251-4254)

A three-percent Federal excise tax is imposed on amounts paid for communications services. Communications services are defined as "local telephone service," "toll telephone service," and "teletypewriter exchange service." Due to changes in technology and commercial practice in the telecommunications industry, recent cases have placed into question whether the excise tax will continue to apply to the services to which it was intended to apply.

In addition, the proliferation of wireless communications technology and the Internet, and in particular broadband access, has blurred the lines between "data" and "voice" quality service and between the functions of transmission and application. Consequently, service providers have found it increasingly difficult to determine which services are taxable communications services and which are nontaxable information services, particularly when services are "bundled."

The proposal contains three options. Under Option 1, the communications excise tax is imposed upon both local and toll voice telephone services, regardless of whether the charges are fixed or vary with distance, elapsed transmission time, both, or some other criteria. It is also clarified that the tax is intended to apply to landline and wireless (including satellite) voice communications services. No view is expressed regarding whether Voice Over IP ("VOIP") is a taxable communications service or a nontaxable information service.

Option 2 incorporates the changes to the tax under Option 1. In addition, under Option 2, a voice communications service is taxable regardless of its technical form. For example, the tax applies to voice communications services using landlines, analog and digital wireless, satellite and VOIP, or any combination.

Option 3 incorporates the changes to the tax under Options 1 and 2. In addition, under Option 3, the communications excise tax base is expanded to include all data communications services to end-users. The taxable base includes local and long distance voice services, VOIP, analog and digital cellular and satellite telephone services, cable and satellite television services (to the extent the charge is for communications), broadband and dial-up Internet access services, paging services, and other data communications services.

B. Equalize Alcohol Excise Taxes (secs. 5001, 5041, and 5051)

On a per ounce basis, distilled spirits are taxed at roughly 21 cents per ounce of alcohol, still wines at 8 cents per ounce of alcohol (assuming an average alcohol content of 12 percent), and beer at 10 cents per ounce of alcohol (assuming alcohol content of 4.5 percent). The differential rates for alcohol products influence production decisions, as producers try to take advantage of the lower wine and beer rates. This in turn has led to compliance problems involving the section 5010 credit (a credit that reduces the tax on distilled spirits for the wine content and flavors content of a distilled spirit), and controversy over the proper tax classification of certain beverages.

The proposal imposes a uniform tax based on the alcohol content contained in the product. The rate of tax is based on proof gallon. Because the rate of tax would not depend on the source of the alcohol, the section 5010 credit is eliminated. The proposal taxes all alcohol at \$8.40 per proof gallon.

C. Subject International Flights with Wholly Domestic Segments to the Segments Tax (secs. 4261 and 4262)

Most domestic air passenger transportation is subject to a two-part excise tax. First, a tax at the rate of 7.5 percent is imposed on the amount paid for taxable transportation. Second, a flight segment tax of \$3.20 is imposed on each domestic segment of taxable transportation. Generally, a domestic segment consists of one takeoff and one landing within the United States.²⁰

Although international flights may include flight segments that consist of takeoffs and landings within the United States (utilizing the same airport flight control resources as a purely domestic flight) such segments are exempt from the domestic segment tax. The proposal imposes the domestic segment tax on these flight segments.

D. Modify the Federal Excise Tax on Sport Fishing Equipment (secs. 4161 and 4162)

In general, a 10-percent excise tax is imposed on the sale by the manufacturer, producer, or importer of specified sport fishing equipment (a few items are taxed at three percent). In addition to fishing rods, poles, and reels, many other items of fishing equipment are taxed. The large number of items subject to the tax creates complexity and administrative burdens for both taxpayers and the IRS. In addition, many of the items subject to the tax have close nontaxable substitutes, leading to highly factual determinations as to whether a particular item is or is not subject to the tax and to disputes between taxpayers and the IRS. This also causes taxpayers to shift from taxable items to nontaxable items, eroding the tax base.

Under the proposal, the excise tax base on sport fishing equipment is narrowed to fishing rods, poles, and reels. This should minimize the complexity, administrative burdens, and base erosion. To maintain the current level of revenue generated by the tax, the rate of tax imposed on taxable articles is adjusted to 21 percent.

²⁰ Domestic segments also include portions of Canada or Mexico that are not more than 225 miles from the nearest point in the continental United States.

XI. ESTATE AND GIFT TAXATION

A. Limit Perpetual Dynasty Trusts (secs. 2631 and 2632)

In general, present law imposes a tax on transfers once each generation. These taxes are in the form of a gift tax for lifetime transfers, an estate tax for transfers at death, and a generation skipping transfer tax for transfers to persons more than one generation younger than the transferor. Present law provides for a lifetime per transferor exemption from the generation skipping transfer tax. The amount of the generation skipping transfer tax exemption is \$1.5 million for generation skipping transfers made in 2005, \$2 million for generation skipping transfers made in 2006, 2007, or 2008, and \$3.5 million for generation skipping transfers made in 2009. Many States have rules that limit the length of time that assets can be held in trust for the benefit of beneficiaries who were not alive at the time of the creation of the trust. These rules are generally referred to as the rule against perpetuities. A number of States have chosen to repeal the rule against perpetuities. It is possible to create trusts in these States, allocate the generation-skipping trust exemption to that trust, and let that trust grow to unlimited amounts over an unlimited number of generations without transfer tax.

The proposal would not permit allocation of the generation skipping tax exemption to a “perpetual dynasty trust,” except to the extent that the trust provides for distributions to beneficiaries in the same generation as the transferor’s children or grandchildren. Under the proposal, the generation-skipping tax exemption effectively would be limited to an exemption of a skip of one-generation.

B. Determine Certain Valuation Discounts More Accurately for Federal Estate and Gift Tax Purposes (secs. 2031, 2512, and 2624)

A common estate and gift tax planning technique is to create ownership structures that take advantage of discounts in the tax valuation of property. Under present law, these valuation discounts can significantly reduce the estate and gift tax values of transferred property. Minority and marketability discounts in particular often create substantial reductions in value. Minority discounts are based on the notion that a minority ownership interest in a business may be worth less than a proportionate share of the value of the assets of the business. Marketability discounts are based on the idea that property for which there is no ready market may be less attractive than property in which public trading exists. In some cases the reductions in value for estate and gift tax purposes resulting from minority, marketability, and other discounts do not accurately reflect value. For example, a taxpayer may make gifts to a child of minority interests in property and claim lack-of-control (minority) discounts under the gift tax even though the taxpayer or the taxpayer’s child controls the property being transferred. A taxpayer also may contribute marketable property such as publicly-traded stock to a partnership (such as a family limited partnership) or other entity that he or she controls and, when interests in that entity are transferred through the estate, claim marketability discounts even though the heirs may be able to liquidate the entity and recover the full value by accessing the underlying assets directly.

The proposal restricts a taxpayer’s ability to claim minority and marketability discounts in certain situations in which those discounts do not accurately reflect the value of the property

interests transferred. It achieves this restriction by prescribing rules governing how property is valued for estate and gift tax purposes. One rule determines whether a minority discount is permitted by generally taking into account a transferor's entire ownership interest in property immediately before the transfer of an interest during life or at death. Another rule provides that if marketable assets such as publicly-traded stock account for at least one-third of the value of an entity, the value of an interest in that entity is determined in part by looking through the ownership interest to the marketable assets themselves. Where this rule applies, it has the effect of denying a marketability discount to the extent the entity holds marketable assets.

C. Curtail the Use of Lapsing Trust Powers to Inflate the Gift Tax Annual Exclusion Amount (sec. 2503)

Under present law, gift tax is imposed on transfers of property by gift, subject to several exceptions. One major exception is the gift tax annual exclusion. Under this exclusion, a donor can transfer up to \$11,000 of property to each of an unlimited number of donees without incurring gift tax on such transfers. In order to qualify for the exclusion, the property interests transferred must be present interests, as opposed to future interests (such as remainders). Gifts in trust are treated as made to the trust beneficiaries for purposes of applying the annual exclusion. Accordingly, if the trust beneficiaries have no right to present enjoyment of the transferred property, the annual exclusion will not apply, as no present interest will have been transferred. However, the courts and the IRS have long agreed that a temporary right of withdrawal of trust property on the part of a beneficiary may serve to create a present interest, thus qualifying such a gift for the annual exclusion. This result obtains even if the right of withdrawal is of short duration, and even if all parties involved expect that the right will not be exercised, and thus the beneficiary will not actually "enjoy" the transferred property on a current basis as a practical matter. These powers, and these arrangements in general, are referred to as "Crummey powers," and "Crummey trusts" (so named after a court case upholding one such arrangement). In recent years, taxpayers have used Crummey powers to achieve benefits extending beyond the conversion of future interests into present interests. Specifically, taxpayers have taken the position that the holder of the Crummey power need not even be a vested beneficiary of the trust, which creates the possibility of using multiple annual exclusions (one for each Crummey power holder) for what ultimately will be a gift to a single donee, as a practical matter. The Tax Court has sustained this position.

The proposal sets forth three options that the Congress may wish to consider for improving the tax treatment of Crummey powers. The first option is designed simply to prevent taxpayers from claiming multiple annual exclusions in connection with gifts that are intended and arranged to accrue to a single person. The other two options effectively eliminate Crummey powers altogether.

D. Provide Reporting for a Consistent Basis Between the Estate Tax Valuation and the Basis in the Hands of the Heir (sec. 1014)

The value of an asset for purposes of the estate tax generally is the fair market value at the time of death. The basis of property acquired from a decedent also is generally the fair market value of the property at the time of the decedent's death. Under regulations, the fair market value of the property at the date of the decedent's death is deemed to be its value as

appraised for estate tax purposes. However, the value of property as reported on the decedent's estate tax return provides only a rebuttable presumption of the property's basis in the hands of the heir. Unless the heir is estopped by his or her previous actions or statements with regard to the estate tax valuation, the heir may, by clear and convincing evidence, rebut the use of the estate's valuation as his or her basis. Consequently, the government is potentially whipsawed by inconsistent valuations by an executor of an estate and by an heir: An executor has the incentive to offer conservative estimates of the value of assets in an estate, while for the purpose of determining gain or loss on an inherited asset, generally the heir would prefer a higher basis.

Providing an heir with fair market value information gives the heir records to improve reporting of income upon future realization of gain. Providing the IRS with the same information would better enable the IRS to challenge inappropriate attempts to underreport gain upon a subsequent realization of that gain. The proposal therefore requires that for any property acquired as a bequest from an estate which has a Federal estate tax liability, the executor is required to provide the heir and the IRS with a statement of the value of the asset reported for estate tax purposes. The value so reported is binding on the heir as his or her basis for the purpose of computing future gain or loss. The proposal does not apply to items of income in respect of a decedent or property that the executor of the decedent's estate sells.

E. Modify Transfer Tax Provisions Applicable to Section 529 Qualified Tuition Accounts (sec. 529)

Section 529 qualified tuition programs allow taxpayers to save for future education expenses on a tax-favored basis. Contributions to section 529 accounts are not deductible for Federal tax purposes, but earnings accumulate on a tax-free basis and distributions that are used for qualified education expenses are not taxable. Special gift and estate tax rules apply to qualified tuition programs. In some situations the gift and transfer tax treatment of a section 529 account is unclear. In addition, present law creates opportunities for inappropriate use of section 529 programs. For example, taxpayers may seek to avoid the applicable gift and estate tax rules through the use of multiple accounts and changing beneficiaries.

The proposal clarifies the application of the transfer tax rules to section 529 accounts and modifies the rules applicable to such accounts so as to reduce the likelihood of inappropriate use. In general, under the proposal, a contribution to a qualified tuition account is not treated as a completed gift, and is includible in the estate of the contributor or the account owner, unless the terms governing the account satisfy certain requirements.

COMMUNICATION



**Statement of Colleen M. Kelley
National President
National Treasury Employees Union**

“The \$350 Billion Question: How to Solve the Tax Gap”

**April 14, 2005
Submitted for the Hearing Record
Senate Committee on Finance**

(443)

NTEU represents 150,000 federal employees in 30 federal agencies and departments, including the men and women who work at the Internal Revenue Service. I appreciate the opportunity to provide the Senate Committee on Finance with comments on ways to solve the increasing tax gap.

There are several items in the Administration's IRS budget that NTEU believes would be detrimental to the IRS' mission of shrinking the federal tax gap. The two most egregious items include the Administration's plans to contract out tax collection to private collection agencies starting this summer, and an inadequate budget request that will prevent the IRS from continuing to improve its customer service record while bolstering enforcement efforts.

Budget

The President's FY 2006 IRS budget proposal is woefully inadequate to provide the resources necessary to meet its enforcement goals to reduce the outstanding U.S. tax gap. I commend the Administration for acknowledging in its Budget in Brief that the "IRS yields more than four dollars in direct revenue from its enforcement efforts for every dollar invested in its total budget." But I must criticize the Administration for failing to request a budget that would enable the IRS to meet the enforcement challenges it faces with its \$350 billion annual tax gap.

The IRS brought in \$5.5 billion more in FY '04 than it did in FY '03 through enforcement efforts. This represents a 15% increase. It makes good business sense to fund the Agency at an amount where it can continue to see a similar return on investment. Unfortunately, the President's budget does not make good business sense.

The IRS needs an appropriation that anticipates required expenses such as congressionally imposed pay raises and rent increases. Part of the President's IRS budget request for enforcement will be used to cover inflationary costs. Of the \$446 million proposed for new enforcement investments, \$182 million will be needed just to keep enforcement at its current levels.

Furthermore, the way in which the Administration proposes to enhance the enforcement budget will mean cuts to other parts of the IRS budget—such as taxpayer assistance. The President's budget calls for a cut of 1,385 service personnel—87 percent of whom directly assist taxpayers and tax professionals. The IRS has taken great strides to improve taxpayer service over the past few years and has been quite successful in making significant progress. The Service must not let the pendulum swing in the other direction and neglect service so that it can focus on enforcement. Service and enforcement must go hand in hand toward increasing taxpayer compliance and shrinking the tax gap.

NTEU strongly supports the IRS Oversight Board's proposed budget recommendation of \$11.6 billion for FY '06—a nine percent increase over the President's budget recommendation and a thirteen percent increase over the FY '05 appropriation. I urge the Committee to also support the Board's recommendation.

Private Tax Collection

NTEU strongly opposes the Administration's plan to privatize IRS debt collection, as authorized by Congress last year in H.R. 4520, American Jobs Creation Act of 2004. Under the statute, the IRS would be permitted to hire private sector debt collectors and pay them a bounty of up to 25 percent of the money they collect. Let me be clear: NTEU opposes this short-sighted proposal, anticipates its complete failure as witnessed in a similar 1996 pilot program and will work towards its repeal.

This proposal would risk the loss of confidentiality of millions of taxpayers' private information, would subject taxpayers to the abusive tactics of private debt collectors, and would cost U.S. citizens much more money than if IRS employees did the job. IRS workers already have the expertise and security protocols necessary to help shrink the U.S. tax gap.

One of the most often heard arguments in favor of the use of private collection agencies is that if they are paid out of the proceeds of what they collect, it increases the IRS' enforcement capabilities without having to increase appropriations. Numerous Congressional supporters said they would prefer to have tax collection done by federal employees, but would go along with the use of private collection agencies solely because it avoids the difficult issue of getting Congress to approve additional appropriations for the IRS.

The statute that gives the IRS the authority to use private collection agencies (PCAs) allows 25 percent of collected revenue to be returned to the collection companies as payment and 25 percent to be retained by the IRS for enforcement efforts, thereby circumventing the appropriations process altogether.

There is nothing magical about revenues collected by private collection companies. If those revenues could be dedicated directly to contract payments and IRS enforcement efforts, there is no reason some small portion of other revenues collected couldn't be dedicated to IRS enforcement efforts. This would allow for increased enforcement by IRS employees, which most people indicate is the preferable route and eliminate large payments (up to 25% of collections) to private collection companies, significantly increasing net revenue to the General Treasury. While legislation would be required to allow for this kind of dedication of revenue, I believe the precedent has now been set with the private collection agency funding provisions. Congress should consider supporting this approach as a common sense way to make real progress in closing the tax gap, lowering our deficits and making more funding available for our Nation's critical needs.

According to GAO's May 2003 testimony before the House Treasury Appropriations Subcommittee (GAO-03-732T), one major concern the IRS must address prior to implementing tax collection outsourcing is the ability to identify "delinquent debts with the highest probability of resolution through PCA contacts. Earlier pilot efforts to study the use of PCAs in 1996 and 1997 were hindered, in part, because the IRS was unable to do this...While IRS proposes using the "case selection analytics" to identify appropriate cases, the analytical model has not been developed."

It appears as though the IRS has not yet addressed case selection. According to the IRS' February 15, 2005 "Filing and Payment Compliance Modernization Briefing: The Use of Private Collection Agencies," there are five major issue areas that still need to be addressed before handing work over to the PCAs. One of the issue areas is selecting the workload for PCAs (called Filing and Payment Compliance), which will be part of the Business Systems Modernization Program. Since case selection was a major obstacle for the IRS in its 1996 pilot program, the IRS should ensure that the technology is in place prior to handing over any work to the PCAs.

Furthermore, the IRS does not have the technology in place to ensure that taxpayer information is kept secure and confidential when it is handed over to the PCAs. The IRS expects to hand over taxpayer information, including Social Security number, to the private collection companies.

Recent security breaches at three data brokerage firms here in the U.S. should alarm every Member of Congress and put into question the IRS' plans for moving forward with this privatization plan. ChoicePoint compromised the personal information of 145,000 Americans. At LexisNexis, thieves were able to access 32,000 records including Social Security numbers and drivers licenses. And Bank of America recently reported it has lost personal data—including Social Security numbers and account information—on 1.2 million federal employees, including some members of the Senate. These are companies that are in the business of trading—and securing—personal information. If they aren't able to secure confidential consumer information, I have little faith that a private debt collection company will be able to guarantee U.S. taxpayers that their information will remain secure.

I would urge the Committee to work with your colleagues to repeal this ill-fated proposal. Additionally, I would urge the Committee to require the IRS to perform cost comparisons and closely track the contractors' costs. This is the only way that taxpayers can be certain their tax dollars are being spent wisely.

Customer Service Cuts

The President's budget proposes to cut \$134,103,000 and 1,205 positions from customer service, with Taxpayer Assistance Centers (TACs) targeted for drastic reductions. IRS Taxpayer Assistance Centers are taxpayers' source for personal, face-to-face tax help. Taxpayers who have complex issues, need to resolve a tax problem, or are more comfortable talking with someone in person can visit a local Taxpayer Assistance

Center. IRS representatives in these offices can help with inquiries or adjustments to tax accounts, payment plans for those who owe tax and cannot pay the full amount, questions about IRS letters and notices, and levies on wages or bank accounts.

These cuts will mean that minorities and low-income taxpayers, who rely on the Centers to help with language barriers, the earned-income tax credit and general tax preparation, will see the tax services they rely on cut. As Janet Spragens, law professor and director of American University College of Law's Federal Tax Clinic, notes in her testimony before the IRS Oversight Board (February 1, 2005):

"...these taxpayers, many of whom have limited or no proficiency in English, are generally not part of the information age. They are not Internet connected...They tend to be helped better through local walk-in offices and opportunities for face-to-face meetings than with an organizational structure based on specialization of function, remote offices, mailed documents, telephone trees with automated selections and electronic transfers."

Even the IRS Oversight Board raises concerns of the IRS' plan to eliminate additional customer service personnel. In its FY2006 IRS Budget Special Report (March 2005), the Board states its concerns:

"Increasing enforcement resources at the expense of service resources is a trend that can lead to a system that fails to meet the needs of all honest taxpayers."

The IRS claims that taxpayers will continue to have access to tax forms and information through on-line access, telephone assistance and volunteer tax preparation. Unfortunately, many taxpayers who use the walk-in centers have little or no proficiency in English and are not part of the electronic information age. Tax forms on the Internet and phone trees do them little to no good. They rely on face-to-face contact with their local Taxpayer Assistance Centers to help them comply with various complexities of the tax code.

While the agency has not yet provided specific information either to NTEU or to affected employees, it is my understanding that the agency is reviewing options that include closing either 105 TACs, affecting 528 employees, or 67 TACs, affecting 516 employees. Either way, the plan is a significant step backward in the ability of the IRS to do its job effectively.

The IRS has suggested that private tax assistance programs using volunteers can fill the void that will be created by the cutbacks. While volunteer taxpayer assistance organizations play an extremely helpful role in assisting taxpayers to meet their tax obligations, it is foolhardy for the agency to rely on volunteers to do work that should be performed by trained and accountable federal employees. Volunteers claim there's already a shortage of computers and other resources to help every taxpayer who seeks assistance, and that situation will only worsen if the IRS follows through with its proposed cuts to customer service.

Furthermore, as the IRS is cutting back walk-in customer service operations, it is

also planning to close six of its call sites in Boston, Houston, Chicago Des Moines, Wichita, and Omaha. Especially hard hit will be the Boston, Houston and Chicago facilities where nearly 200 employees could be affected. These are facilities where the employees receive taxpayers' inquiries and respond to their tax questions.

Congress must commit to funding the IRS at adequate levels so the IRS is not made to choose between bolstering enforcement and providing the superior service our taxpayers expect and deserve. I urge the Committee to again take the budget recommendation of the IRS Oversight Board, prohibit the IRS' proposed cuts in customer service and require the Service to maintain all current Taxpayer Assistance Centers.

Conclusion

On behalf of the dedicated federal employees NTEU represents, I am proud to submit these views for the hearing record. I encourage the Finance Committee to make a strong investment in the federal workforce in order to shrink the tax gap by supporting a strong budget for the IRS; repealing the IRS' authority to privatize tax collection; and prohibiting the IRS from closing up to one-quarter of its Taxpayer Assistance Centers.

Without a doubt, the frontline employees are committed to working with management and Congress to increase efficiency and customer satisfaction. NTEU is committed to striking a balance between taxpayer satisfaction, business results and employee satisfaction. I encourage Congress to join us in this commitment.

