

CERCA Statement

IRS Oversight Board Hearing May 1, 2013

I) CERCA Mission

- a. The Council for Electronic Revenue Communication Advancement (CERCA) was actually founded in 1994 at the explicit request of the IRS (in a Federal Register Notice) to help build e-file and electronic tax administration. The organization has advanced the national goal of electronic filing adoption in the modern tax system since its founding, and is proud of the joint accomplishment with the IRS of achieving and exceeding the 80% e-file goal for the United States that had been set in the 1998 IRS Restructure and Reform Act
- b. We have partnered with the IRS and State Revenue Agencies to improve the American taxpayer experience and to support continuous improvement, efficiency and excellence in our Voluntary Compliance system
- c. CERCA partnered with IRS to create the IRS Free File Program in 2002 and launched it in 2003, as an innovative, non-monetary public-private partnership to provide free online tax preparation and filing to lower and middle income taxpayers at no cost to the consumer or the government, operating under a strict set of rules and standards.

Through IRS Free File, American taxpayers have two ways to prepare and file their taxes for free through the IRS website; approximately 100 Million taxpayers have access to fully featured software for free online tax preparation and e-filing, with 15 companies to choose from; and through Free File Fillable Forms, all 147 Million taxpayers have access to electronic tax forms which are fillable, calculating and e-filable, also through the IRS Free File website. The cost to the taxpayer using these Federal tax return services is zero, and the cost to the Government is the same, but for a small management staff to oversee and manage the program.

The IRS Free File Program and the IRS VITA Program each generate approximately 3 Million free Federal returns annually. These 6 Million total returns represent an important public service to the American taxpayer.

II) Return Accuracy and System Integrity

- a. The issues of enhancing the accuracy of tax returns and combatting identity theft and fraud are strategic priorities, not only for IRS but shared by CERCA as well
- b. CERCA's Board was pleased to have the opportunity to meet last year with the IRS Real Time Tax Project Team for a two way dialogue about concepts, objectives and ideas
 - i. Just as has been the case in the United Kingdom, where the Real Time Tax concept originated, the comprehensive implementation by Government of the initiative is not only a daunting agenda, but, depending on the chosen strategy, potentially a high cost investment for the IRS, and thus the taxpayer, and could represent high cost to the private sector as well, particularly the small business community whose reporting requirements could change significantly
 - ii. Just as CERCA did more than a decade ago in the cooperative dialogues that led to creation of the IRS Free File Program -- where private sector innovation and investment were leveraged to serve public purpose, providing a new national service program for taxpayers at no public expense -- the CERCA Board suggested to the IRS Real Time Team that there may be alternative implementation strategies that should be carefully considered that could make the Real Time accuracy goals more achievable and affordable, again harnessing the private sector in partnership with the Government.
 - iii. As CERCA explained to the IRS Real Time Team, the automatic electronic downloading of essential financial data directly into tax returns from their original sources has been a technological capability of the private sector in tax software and services for a decade, but it is still not the standard way tax returns are prepared in the United States. CERCA recommended IRS immediately engage the private sector in direct dialogue about what it would take to evolve to the point that verified financial data, downloaded directly into returns from their original sources, would become the standard method of how tax returns are prepared in this country.

The verification of W2's and 1099's by electronically going to their original data sources – payroll providers and financial institutions -- and directly electronic downloading that financial information into tax returns before they are filed, could be the next leap forward in the quality of tax

returns being received by the IRS, while significantly advancing the ease and simplicity of return preparation; industry has already developed and deployed these innovative capabilities; making this the standard way most tax returns are prepared would save the Government the hundreds of millions or even billions of dollars that have been variously estimated as the cost to implement Real Time Tax, if Government would consider a public-private partnership strategy instead of building and operating such systems itself. Moreover, harnessing the private sector to deliver this capability would also ensure continuous private investment and innovation in these data service capabilities, rather than implementing a static public solution at high cost. CERCA volunteered to be the facilitator or convener of IRS dialogue with industry to undertake the objective to bringing this efficient and economical alternative solution to reality in public service to the taxpayer and the tax system.

- iv. CERCA likewise shares the concerns raised by the IRS, Congress, TIGTA, GAO and others regarding the priority to combat fraud and identity theft. CERCA and other industry groups such as ACTR have engaged in dialogue with the IRS about new strategies and technology solutions to protect the tax system against identity theft and fraud and enhance security. In particular, CERCA Board companies have participated in an initiative with ACTR that last Summer proposed specific strategies to reinvent the IRS electronic filing gateway in order to significantly enhance identity verification at the point of e-filing, and thus protect the integrity of tax administration and return processing from fraud by stopping ID theft at the front door. These are achievable objectives in service to improving the taxpayer experience and the integrity of the system.
- v. CERCA believes that the combination of industry's recommendations on these two initiatives could significantly advance the declared objectives of the Real Time Tax strategy, but at substantially lower public cost. We would hope that at a time when IRS is working very hard to do more with less, these economically efficient strategies would receive serious consideration. CERCA stands ready to contribute its time, energy and expertise to the advancement of these kinds of creative strategies.