The Joint Economic Committee
ECONOMIC FACT SHEET
Chairman, Senator Charles Schumer
Vice Chair, Congresswoman Carolyn Maloney
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FREE E-FILING MAKES SENSE FOR BOTH TAXPAYERS AND THE IRS

Filing income tax returns electronically has significant advantages for both taxpayers and the IRS. Electronic filing (e-filing) is more convenient for taxpayers, return processing is faster, and refunds can be sent out more rapidly. For the IRS, there are enormous cost savings from e-filing. While each paper return costs roughly $2.50 to process, an e-filed return costs less than $.30.[1] E-filing is also more accurate. The IRS finds roughly 1 error in every 100 returns filed electronically (regardless of whether the return was prepared professionally of self-prepared by the taxpayer), compared to about 1 error in every 5 paper returns.[2]

While the number of returns filed electronically continues to grow, the IRS clearly has not met the goal set by Congress in 1998 of having 80 percent of returns filed electronically by 2007. In the 2007 filing season 79 million individual income tax returns were filed electronically, up from 73 million returns in 2006 (**See Table)**. The percentage of returns filed electronically has increased from 10 percent in 1995 to about 58 percent of tax returns filed last year.

Electronic Filing of Individual Income Tax Returns, Fiscal Years 1995-2006

	Total Number of Returns (millions)	Number of Electronically-filed Returns (millions)	Electronically-filed Returns as a Percent of All Returns
2007	138.9	78.7	57
2006	133.9	72.8	54
2005	132.8	68.5	52
2004	131.3	61.5	47
2003	130.7	52.9	40
2002	130.9	46.9	36
2001	129.8	40.2	31
2000	127.6	35.4	28
1999	125.2	29.4	23
1998	123.0	24.6	20
1997	120.7	19.2	16
1996	118.8	15.0	13
1995	116.3	11.1	10

Source: IRS data available at http://www.irs.gov/taxstats/index.html.

Paid preparers submitted approximately 30 million of the 58 million paper returns filed in 2007, costing American taxpayers billions of dollars.[3] If these professionally prepared paper returns had been filed electronically, the IRS would have saved roughly $65 million in 2007. If all paper returns had been electronically filed, the savings would have been nearly twice that.

Current procedures impede the continued expansion of electronic filing. Taxpayers can file electronically only through certain intermediaries and e-filing is not free for all taxpayers. Specifically, a taxpayer wishing to file an electronic return must do so through a paid preparer or by using commercial tax preparation software. In addition to the fees paid to prepare the return or to purchase tax preparation software, taxpayers often must pay an e-filing to file an electronic return. In 2007, taxpayers spent almost $1.1 billion on fees associated with e-filings. The Joint Economic Committee estimates that in 2008, this cost will increase by approximately 10 percent to just over $1.2 billion.[4]

Many taxpayers who could easily file an electronic return choose not to do so. Over 43 million paper returns filed in 2007 were initially prepared on a computer but were then printed out and mailed to the IRS.[5] It would have been a simple matter for taxpayers to transfer the information from their computers to the

IRS if there were a direct, free option for doing so. Perhaps they were thinking the same thing as National Taxpayer Advocate Nina Olson, who observed in her testimony before Congress that, "Although I deeply believe that e-filing is best for both taxpayers and the IRS for a host of reasons, I resent the notion that I would have to pay separate fees to prepare my return and file it, so I printed out my return and mailed it in."[6]

In lieu of universal free electronic filing, in 2002 the IRS entered into an agreement with a consortium of tax preparation software companies (the Free File Alliance) to provide free online tax preparation and filing to taxpayers meeting certain income eligibility limits. Under the new agreement, which was renegotiated in 2005 and extends for 4 years, taxpayers with income below the income eligibility limit ($54,000 for 2007 tax returns filed this year) can file for free, but companies in the Free File Alliance cannot extend free filing to taxpayers with higher income. Approximately 30 percent of all individual taxpayers do not qualify for the Free File program. The new agreement also places new requirements on the marketing of Refund Anticipation Loans by software companies providing the free filing service.

The Free File program has done little to increase the number of returns filed electronically. Just over 5 million taxpayers used Free File in 2005 and the number dropped in 2006.[7] Although the number of taxpayers using this program has increased for the current tax filing season, this program remains underutilized and an ineffective tool for facilitating electronic filing.[8]

The IRS could provide online forms for taxpayers to fill out and file directly. Nearly half of the states currently allow taxpayers to file their returns directly online. The claim that free electronic filing would put the IRS in competition with private tax preparation companies is a red herring because private tax preparation offers much more than just electronic filing. Paid preparers and tax preparation software offer step-by-step guidance and suggestions to help taxpayers complete their returns, and are not the simple fill-in-the blanks forms that IRS would offer. Indeed, the IRS already provides forms that can be downloaded and filled out on a computer, but taxpayers must print out the forms and file them by mail.

The national taxpayer advocate has recommended free filing for many years. Legislation introduced in the 109th and 110th Congress by Senators Akaka and Bingaman would require the IRS to provide taxpayers with the ability to electronically file their returns through the IRS website without the use of an intermediary or through an intermediary that contracts with the IRS to provide the free access. Free electronic filing would help taxpayers and save the IRS significant resources. It simply makes sense.

END NOTES

[1]Based on podcast with Bert Dumars, Director, Electronic Tax Administration, Internal Revenue Service, April 2, 2007. (www.sfgate.com)
[2]Ibid.
[3]Percentage of returns submitted by paid preparers comes from SOI Tax Year 2006 Taxpayer Usage Study, Weekly Report 16.
[4]According to the IRS's Filing Season Statistics, e-filings are up 10% this year over last year. See http://www.irs.gov/taxstats/article/0,,id=96629,00.html
[5]Percentage of paper returns prepared using a computer comes from SOI Tax Year 2006 Taxpayer Usage Study, Weekly Report 16.
[6]Written statement of Nina E. Olson, National Taxpayer Advocate, before the Committee on Finance, United States Senate, April 4, 2006.
[7]Statement of James R. White, Director Strategic Issues and David A Powner, Director Information Technology Management Issues, U.S. Government Accountability Office, before the Committee on Finance, U.S. Senate, April 12, 2007. GAO-07-720T.
[8]Percentage of returns received through Free File for current filing season comes from 2008 Filing Season Data – Returns/Refunds for Week Ending 4/5/2008.

Americans Spent Over 1 Billion Dollars on E-File Fees in 2007

	All Returns (thousands)	E-file Returns (thousands)	Money Spent on E-file Fees (1) (millions of dollars)		All Returns (thousands)	E-file Re-turns (thousands)	Money Spent on E-file Fees (1) (millions of dollars)
United States, total	**138,893,908**	**78,728,542**	**$ 1,094.6**	Missouri	2,716,829	1,584,572	22.0
Alabama	2,021,468	1,310,927	18.2	Montana	464,574	273,829	3.8
Alaska	341,370	183,825	2.6	Nebraska	832,643	513,147	7.1
Arizona	2,586,387	1,430,863	19.9	Nevada	1,206,328	678,901	9.4
Arkansas	1,182,081	745,790	10.4	New Hampshire	659,772	345,588	4.8
California	15,925,182	9,328,180	129.7	New Jersey	4,220,282	2,281,692	31.7
Colorado	2,220,625	1,122,426	15.6	New Mexico	884,590	511,350	7.1
Connecticut	1,711,034	1,004,003	14.0	New York	8,939,368	4,909,819	68.3
Delaware	411,529	230,510	3.2	North Carolina	3,994,348	2,312,893	32.2
District of Columbia	287,218	148,327	2.1	North Dakota	314,183	194,464	2.7
Florida	8,647,477	4,699,103	65.3	Ohio	5,515,814	3,026,173	42.1
Georgia	4,064,898	2,499,985	34.8	Oklahoma	1,539,523	938,607	13.0
Hawaii	637,469	288,542	4.0	Oregon	1,689,279	942,900	13.1
Idaho	638,980	398,866	5.5	Pennsylvania	6,033,435	3,003,594	41.8
Illinois	5,968,137	3,095,556	43.0	Rhode Island	517,468	268,631	3.7
Indiana	2,965,560	1,711,262	23.8	South Carolina	1,942,865	1,261,831	17.5
Iowa	1,376,226	970,487	13.5	South Dakota	377,082	225,921	3.1
Kansas	1,285,611	765,766	10.6	Tennessee	2,733,972	1,663,704	23.1
Kentucky	1,822,139	1,123,196	15.6	Texas	10,041,600	5,495,211	76.4
Louisiana	1,931,010	1,067,175	14.8	Utah	1,071,712	630,186	8.8
Maine	632,790	297,178	4.1	Vermont	319,584	158,914	2.2
Maryland	2,711,618	1,342,850	18.7	Virginia	3,613,512	1,949,768	27.1
Massachusetts	3,139,717	1,837,040	25.5	Washington	3,008,488	1,619,323	22.5
Michigan	4,653,228	3,096,124	43.0	West Virginia	769,727	432,405	6.0
Minnesota	2,555,729	1,750,548	24.3	Wisconsin	2,734,618	1,787,292	24.8
Mississippi	1,228,186	789,737	11.0	Wyoming	256,835	148,801	2.1

Source: IRS data available at http://www.irs.gov/taxstats/index.html.
[1] Assumes that all taxpayers who electronically filed their tax returns (including those who used paid preparers) were assessed an e-file charge of $14.95 per return. Also assumes that 7% of electronically filed returns were free e-filers who were not charged a fee.