

# *United States Senate Committee on Finance*

For Immediate Release  
Thursday, Nov. 2, 2006

## Grassley, Baucus Express Concern Over Continued Tax Free File Program Problems

WASHINGTON – Sen. Chuck Grassley, chairman of the Committee on Finance, and Sen. Max Baucus, ranking Democrat, today expressed concern that the Internal Revenue Service continues to make the tax Free File program inaccessible, complicated, and otherwise frustrating for taxpayers.

In a letter to the IRS commissioner, Grassley and Baucus cited a new report from the Treasury Inspector General for Tax Administration that documents anew the failures of the Free File program. At a hearing earlier this year, Grassley and Baucus explored problems with the program. Those problems appear to continue and may be worse than before.

“It seems the tax preparation industry was holding all the cards in the renegotiation of this program,” Grassley said. “The industry appears to be using the Free File program as an opportunity to bolster its revenue through the sale of ancillary products at taxpayer expense. I’m all for private enterprise, but not when it co-opts taxpayer service. The IRS is losing the game and doesn’t even seem to realize it. The IRS’ first priority is supposed to be the taxpayer. It shouldn’t be taking away from taxpayer service to subsidize the tax preparation industry.”

Baucus said, “The IRS needs to take a good, hard look at the Free File program to make sure that it is working effectively for honest Americans who are trying to pay their taxes. In the 21<sup>st</sup> century, there should be an easy, convenient and free way for taxpayers to file their returns directly to the IRS online. Improving the Free File program would make many taxpayers’ lives easier and help us close the tax gap.”

The text of the Grassley-Baucus letter follows here.

November 2, 2006

The Honorable Mark Everson  
Commissioner  
Internal Revenue Service  
1111 Constitution Avenue, NW  
Washington, DC 20224

Dear Commissioner Everson:

The Treasury Inspector General for Tax Administration (TIGTA) Report 2006-40-171 entitled, “Use

of the Free File Program Declined After Income Restrictions Were Applied,” serves as another unfortunate reminder that the Free File Program is not working. It seems that the IRS has been putting the taxpayer second in line behind the tax preparation industry and the result is negatively affecting participation in the Free File Program and the overall growth of electronic filing.

During renegotiation of the Free File Alliance contract, new income restrictions were imposed that effectively eliminated 39 million taxpayers from eligibility from the program for the 2006 filing season. At the same time, the IRS internally eliminated the TeleFile Program which provided free electronic filing directly with the IRS by telephone for certain eligible taxpayers.

While the TIGTA report points out that additional consumer protections were gained during the renegotiation process, TIGTA also found that it is the commercial nature of the Free File Program that made many of the enhancements necessary. Also, the actual benefits of some of these enhancements are questionable at best. For instance, the TIGTA report states that a valuable change to the Free File Program was the addition of the option to file for an extension of time using Form 4868. Under the renegotiated agreement, Alliance members receive additional description space on the IRS Free File Website if they offer free preparation and electronic filing of Form 4868 beginning April 1. However, a fact that was overlooked by the TIGTA report is that Form 4868 used to be part of the disbanded TeleFile Program. The TeleFile Program allowed taxpayers to file Form 4868 electronically by telephone, directly with the IRS, starting in early February. It is unclear how putting a two month restriction on a taxpayer’s ability to electronically file an extension for free actually benefits taxpayers at all. Also, because the electronic submission of the extension form is no longer directly received by the IRS, but instead requires a third party transmission by a member of the Free File Alliance, taxpayers may be subjected to an additional security risk as well as marketing of commercial products.

To further compound matters, when the IRS revised Form 4868 for the 2006 filing season, the form removed all references to filing the form using the obsolete TeleFile Program, but failed to instruct taxpayers of the availability of free electronic filing using the Free File Program. Instead, the only references to electronic filing that the form provides are those methods that come at a cost – through the use of tax software packages, tax preparers, or credit card payments. The IRS recently released the Form 4868 for the 2007 filing season and there continues to be no reference to free electronic filing through the Free File Program.

Another purported benefit of the renegotiation is the addition of an indicator to provide a mechanism for the IRS to collect data about the Free File Program. However, the renegotiated agreement places restrictions on who can use the data gathered as a result of this indicator. The IRS must inform the Alliance members when another Government agency such as Congress requests data concerning individual companies. The Free File Alliance then has the option to discontinue providing the Free File Indicator at that time. As members of the Senate Finance Committee, we have oversight authority into programs run by the IRS that affect the tax filing season. It is absurd that the IRS would enter a contract that would facilitate the evasion of Congressional oversight.

Lastly, an analysis by the Finance Committee staff of the Free File services during the 2006 filing season indicates that use of the Free File programs may be anything but free. The participating companies use their Free File web sites to market a whole array of other products and services to

taxpayers with what appears to be little or no oversight from the IRS. For example, one Free File site contained a link for taxpayers to purchase a tax preparation franchise for \$15,500. While such link was subsequently removed, proper oversight by the IRS could have minimized the availability.

We would like the IRS to provide us with a response that addresses the issues above and that outlines plans to improve the Free File Program for the upcoming filing season. The IRS needs to provide better oversight of the Free File Program this coming filing season and should encourage the members of the Free File Alliance to provide services to taxpayers that are truly free. If the tax preparation industry cannot provide free basic filing services without hidden costs and traps, perhaps it is time to consider having the IRS provide a direct filing portal to enable all taxpayers to file electronically without cost. Please provide your response by November 17, 2006.

Sincerely yours,

Charles E. Grassley  
Chairman

Max Baucus  
Ranking Member