



August 30, 2005

The Honorable Connie Mack
Chairman
President’s Advisory Panel on
Federal Tax Reform
1440 New York Avenue, Suite 2100
Washington, DC 20220

The Honorable John Breaux
Vice Chairman
President’s Advisory Panel on
Federal Tax Reform
1440 New York Avenue, Suite 2100
Washington, DC 20220

Dear Chairman Mack, Vice Chairman Breaux, and Members of the Panel:

The undersigned organizations write to express our opposition to a “Return Free” tax filing system. We understand this concept has been raised by some for consideration by the President’s Advisory Panel on Federal Tax Reform.

As you may know, this proposal is not a new one. The concept is already being used in several countries including France, Finland and Great Britain, and is currently being tested here in the United States by the Franchise Tax Board (FTB) of the State of California.

In a “Return Free” tax model, a government tax agency, such as the Internal Revenue Service (IRS), automatically prepares the income tax returns of those taxpayers with the simplest returns. Having already received the W-2 forms from the taxpayer’s employer – which are now used to audit and verify returns – the agency uses government computers to calculate what it believes the taxpayer’s payment or refund should be.

The agency then sends a written determination and a bill to the taxpayer. The taxpayer can accept the government's calculations, make adjustments, or ignore the determination and complete and submit a separate return. Return Free advocates and tax bureaucrats argue that this is a convenience for the taxpayer.

There are several major reasons why this "taxpayer service" is flawed, dangerous to taxpayers, and should not be a component of federal tax reform.

- **Return Free creates a conflict of interest by making the tax collector the tax preparer.** Return Free would make the same agency that collects taxes, writes tax regulations, collects revenues, performs audits, and enforces compliance to now also become the tax preparer. As a result, the tax collector's interest in maximizing revenue completely overrides the citizen's interest in minimizing his or her tax liability. Return Free cuts out the critical participatory role of the individual in the management of his or her own finances, including minimizing the individual's tax burden to the fullest extent of the law. It is not inconceivable that a government agency may choose to overlook many of the deductions and credits to which taxpayers are entitled either through bureaucratic error or in the interest of maximizing revenue.
- **Return Free takes a dangerous step away from voluntary compliance.** Involvement in preparing and submitting one's tax return is one way in which the public has awareness of, and accountability for, its own government. Willing citizen participation in the tax process is something absent from other economies where government undertakes this role.
- **This program likely will result in more errors as intimidated taxpayers either underpay or overpay.** For many taxpayers targeted by Return Free, getting an official "bill" from the Internal Revenue Service can be extremely intimidating, particularly for seniors, low-income and non-English speaking citizens. In some cases, taxpayers who might have additional deductions not reflected on their Return Free tax statement may feel *compelled* to pay the official government determination without question. In other cases, taxpayers who earned non-wage income may accept the government-prepared bill out of fear of challenging it, and mistakenly underpay and open themselves up to later investigation for tax evasion.
- **The individual taxpayer is personally liable for mistakes, not the government.** The Return Free system saddles the taxpayer with responsibility for the accuracy of the government-prepared return, much like the current IRS 800 number hotlines may not be relied upon for accurate information and advice. In contrast, if a taxpayer receives assistance in the preparation of his or her taxes – from a private sector tax preparer or tax software – it is commonly understood that the commercial service provider shares responsibility for the return's accuracy. A Return Free system could expose taxpayers to unknowing violations of the law because they believed they were in compliance.
- **Return Free is not a solution for non-compliance.** Return Free systems are entirely dependent on reported income as the data source for the automatic preparation of tax returns – W-2 and 1099 forms which are already reported directly to the government. Where there is taxable income that is truly unreported in the economy today – such as from self-employment, tips, or under-the-table employment or transactions – a Return

Free system would have no new sources of information, and therefore non-compliance would continue.

- **Even with Return Free, taxpayers must still take the time to prepare their taxes.** While Return Free will undoubtedly be advertised as a convenient timesaver, taxpayers will still have to independently determine and prepare their own taxes to verify that the Return Free bill is correct and avoid being held liable for filing a false, inaccurate or incomplete tax return. Because the sole responsibility and liability for accuracy and completeness is on the individual, Return Free does not result in a reduction of burden or the substitution of government compliance work for that expected of the citizen.

For these reasons, the undersigned organizations strongly urge the President's Advisory Panel on Federal Tax Reform not to adopt a Return Free tax system proposal into your final panel report submitted to the President and to Congress.

Sincerely,



Grover Norquist
Americans for Tax Reform



David Keene
American Conservative Union



Paul Gessing
National Taxpayers Union



Geoffrey Segal
Reason Foundation



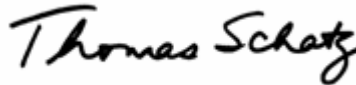
Karen Kerrigan
Small Business & Entrepreneurship Council



Daniel Clifton
American Shareholders Association



Pat Toomey
Club for Growth



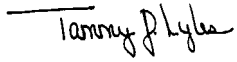
Thomas Schatz
Council for Citizens Against Government Waste



Michelle Korsmo
Americans for Prosperity



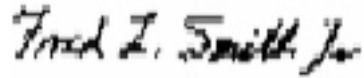
Jim Martin
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Tammy Lyles
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Matt Kibbe
Freedom Works



Fred Smith
Competitive Enterprise Institute



George Landrith
Frontiers of Freedom