



October 28, 2005

The Honorable Joseph Knollenberg
2349 Rayburn House Office Building
Washington DC 20515

Dear Representative Knollenberg:

The undersigned organizations wish to convey our strong support for the Ensign-Allen-DeMint-Bond provision in the FY06 Departments of Transportation, Treasury, and Housing and Urban Development, the Judiciary, District of Columbia, and Independent Agencies Appropriations Act. **We strongly urge your active support of this provision in conference committee.**

This provision would prohibit the Internal Revenue Service (IRS) from providing free electronic individual tax preparation outside of the Free File program, an agreement by which the electronic tax filing industry provides free filing services to needy taxpayers. This agreement has served two simultaneous purposes by meeting the needs of low income taxpayers while protecting them from the inherent conflict of interest that would result from the tax collector and enforcer taking on the role of tax preparer.

This provision is essential to prevent the IRS from implementing a "Return-Free" tax filing scheme, by which the IRS would automatically prepare 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.

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.

The Ensign-Allen-DeMint-Bond provision in the Senate version of the FY06 TTHUD appropriations bill is essential to prevent government from once again attempting to compete with the private sector, and to ensure that the IRS does not implement a Return Free tax preparation scheme. Therefore we strongly support this provision and urge you to help ensure that this language is accepted during the TTHUD conference negotiations.

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



David Keating
Club for Growth



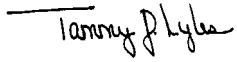
Thomas Schatz
Council for Citizens Against Government Waste



Michelle Korsmo
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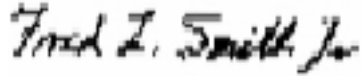
Jim Martin
60 Plus



Tammy Lyles
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Matt Kibbe
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Fred Smith
Competitive Enterprise Institute



George Landrith
Frontiers of Freedom

Cc: House Republican Conferees, FY06 TTHUD Appropriations