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Can the IRS streamline the filing process and lift that burden from taxpayers?

By SCOTT CANON
The Kansas City Star

As we trudge to our accountants with bags of receipts, click anxiously through store-bought software or bravely attack the 1040 with pencil and eraser, some 2 million Californians have a much easier option.

The state did their returns for them. They need only check to see if they agree with the figures and assumptions calculated for them and computer-click their way to completion.

Some say Uncle Sam ought to try the same thing.

After all, life only gets easier for the Internal Revenue Service when the forms arrive electronically — free of smudges, math errors and sloppy handwriting.

In all, Americans spend \$30 billion a year just on preparing their tax forms (a figure that excludes corporate and small business filings or tax planning). As a presidential candidate, Barack Obama pledged pre-filled forms that we could “verify, sign and return.”

California prepares state income taxes for hundreds of thousands of its residents just like that. It offers the free service at a cost to the state of less than \$1 per filer.

“The IRS could do that, too,” said Joseph Bankman, a Stanford University law professor who has championed the approach.

To be sure, millions calculate their ultimate tax bill with a minimum of anxiety and a reasonable confidence.

But a move is afoot to push the IRS toward more digital help for the worried remainder who anticipate April 15 as if it were root canal — fretting with their accountants, dashing to H&R Block offices or buying computer programs like those offered by Block and competitor Intuit’s market-leading TurboTax.

Change won’t come soon. Kansas City-based Block and the tax preparation industry are opposed, and the IRS is occupied with other reforms.

Filing in 60 seconds?

Bankman likens the U.S. system of tax filing to Visa sending you a blank piece of paper and expecting you to collect the receipts of all your charges and count up what you owe.

He imagines at least two alternatives.

What if the IRS looked at the W-2 record of your wages and the 1099 forms of other income and sent you a tentatively completed return? You’d check that the government got it right, adjust for your charitable contributions and knock the whole thing out in the time it takes to watch a sitcom.

Alternatively, Bankman suggests, we could tap into the information the IRS already has about our income and register the pertinent changes in our lives — a divorce or the birth of a new dependent — when we stop impulsively at the tax preparer’s office. No need for the tax filer to fret over misplaced forms or to spend a weekend organizing records.

“Why doesn’t the government make it easy to do this online? We know it can be done,” Bankman said. “It’s just a download away.”

To be sure, the federal government does offer a hand to the befuddled.

It’s got online help guides and toll-free assistance lines. Through its Free File program, 20 companies offer lean versions of their tax preparation software for free. While the giveaways come with varying conditions depending on age and what state you live in, the tax prep is generally available to anybody making less than \$57,000. About 3

million people used the program last year.

Still, some think the IRS could do more — in ways that would save tax filers money and hassle in trying to comply with Washington's brain-busting tax code, and to streamline the government's work of sorting returns. Some predict lessening the hassle factor could boost compliance.

"It's a stunningly reasonable idea," Randall Stross wrote in a New York Times column earlier this year. "When you prepare your return, why can't you first download whatever data the Internal Revenue Service has received about you and, if your return is simple, learn what the IRS's calculation of your taxes would be?"

Consider what California does through its ReadyReturn. Starting in 2004 with just 12,000 taxpayers, the program sent pre-filled returns for people to look over, alter and send back. Last year, 60,000 taxpayers used the program, and 99 percent said they would use it again.

For now, the program is limited to the simplest of filers. They can receive wages from only one employer. Singles can't make more than \$160,739. Couples filing jointly must earn less than \$241,113. They can't have more than five dependents, can claim nothing other than the state's renter credit and can have income only from wages.

California more than recoups the cost of the service when it shifts filers from paper to electronic returns, which cost the state about one-seventh the cost to process.

Bankman and others say the program could be expanded to other taxpayers with multiple wage sources and other forms of income. If the government already has reports on the money you received this year, they reason, it's simple enough to electronically fill in the blanks for you. Stross wrote that the "60-second tax season" is within our grasp.

"That day may be coming," said J. Harlan Stamper, a Kansas City tax lawyer at Polsinelli Shughart.

Not so fast, now

Even boosters of the pre-filled return and other reforms say there will always be work for accountants and other tax-prep specialists. A self-employed plumber, for instance, would remain the only practical player to keep track of hundreds of checks received in a year for installing faucets and snaking out sewer lines. And taxpayers with complicated finances will always be tempted to turn to a professional, or an elaborate software program, to ensure they take advantage of all the breaks the tax code has in store for them.

"Right now, this is one of those areas where the market is filling in where the feds are not treading," said Tobie Stanger, a senior editor at Consumer Reports magazine. "But I still recommend that the self-employed go to an accountant instead of using the software. They just find more things for you."

A survey by the National Society of Accountants found that last year, the average cost for preparing a Form 1040 with Schedule A itemizations was \$229 nationally, \$142 in Missouri and \$172 in Kansas. (The report also showed that smaller accounting firms tend to charge less.)

Electronic returns pay dividends for the government. The IRS' cost to process a paper return is \$2.87, compared with 35 cents for an electronically filed return. Paper returns, the IRS says, can have error rates as high as 20 percent, compared with less than 1 percent for electronic returns. The IRS says it processes most electronic returns within 48 hours of filing, before most paper returns would even arrive through the mail, and the agency said it's simpler to alert taxpayers of errors on e-returns.

Austan Goolsbee, now a member of Obama's Council of Economic Advisers, has long advocated a "Simple Return" drafted by the IRS based on financial data sent to the government by employers, banks and other financial firms. Taxpayers could then simply sign it and send it back. In the 2008 campaign, Obama backed the idea.

Last year, however, the IRS' National Taxpayer Advocate issued a report saying, "In light of the significant amount of time and money Americans spend on tax preparation, this idea is worth considering, but it is that not feasible at this time."

The hiccup, the report said, was that the various institutions don't file the information speedily enough for taxpayers eager for their refunds. In California, the state simply set early deadlines. The Taxpayer Advocate Service asked for a year's study on the issue and suggested it might take five years to impose a change.

At Block, which employs almost 1,200 year-round in Kansas City, Washington lobbyist and senior vice president Kate Fulton contended the IRS has more pressing reforms and that moving toward pre-filled returns might actually hurt consumers.

"The speed of the refunds could be undermined," she said. "Moving deadlines costs everyone something. ... There's a cost to do that for businesses. ... There is a ripple effect there" as those costs are passed along to

employees and customers.

Even some low-income filers — like those who qualify for the Earned Income Tax Credit — often have tax situations that don't fit in neat, tidy packages, Fulton said.

At the libertarian Cato Institute, tax policy director Chris Edwards sees little need for the federal government to play a larger role in tax preparation. Better, he said, to look for simpler tax policy. In the meantime, he said, a competitive market pushes companies to develop smarter and simpler software.

"Whenever the government starts to compete with the private sector," he said, "you've got problems."

Estimates of IRS returns filed as of April 2

KANSAS MISSOURI Total returns

869,000

1.75 million

Electronically filed

753,000

1.46 million

Electronic returns by tax professionals

482,000

943,000

Self-prepared e-returns

271,000

525,000

Paper returns

116,000

282,000

Taxing tips

File electronically, where errors are far less common.

Double-check your math.

Sign and date. If filing jointly, make sure your spouse signs as well.

Attach W-2 and other necessary forms.

Direct deposit speeds refunds. Double-check bank routing and account numbers.

To reach Scott Canon, call 815-234-4754 or send e-mail to scanon@kcstar.com.

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