

ANALYSIS OF AMENDED BILL

Author: Frommer Analyst: Deborah Barrett Bill Number: AB 1046
 Related Bills: See Legislative History Telephone: 845-4301 Amended Date: June 22, 2006
 Attorney: Patrick Kusiak Sponsor: _____

SUBJECT: ReadyReturn Program

SUMMARY

This bill would authorize Franchise Tax Board (FTB) to offer the ReadyReturn filing option to eligible taxpayers.

SUMMARY OF AMENDMENTS

The June 22, 2006, amendments deleted provisions related to the Earthquake Safety and Hospital Preservation Bond Act and inserted provisions to allow FTB to offer ReadyReturn as a filing option for eligible taxpayers. This is the department's first analysis of this bill.

PURPOSE OF THE BILL

According to the author's staff, the purpose of this bill is to provide options to taxpayers to ease the filing burden placed on them and to maximize the use of efficient and cost effective technology.

EFFECTIVE/OPERATIVE DATE

This bill would be effective upon enactment and, unless enacted as an urgency measure, would be operative as of January 1, 2007.

POSITION

Pending.

ANALYSISFEDERAL/STATE LAW

Current federal law mandates the IRS to increase the percentage of returns filed electronically by taxpayers. Through the IRS Free File Program, taxpayers that meet specific criteria, such as adjusted gross income under \$50,000 per year, can file electronic returns at no cost using private vendors to meet this objective. The IRS is prohibited from developing its own "income tax electronic filing or preparation products or services." The IRS lacks any filing option similar to ReadyReturn.

Board Position:

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Department Director

Selvi Stanislaus

Date

6/27/06

Current state law requires FTB to develop and make available forms for taxpayers that are as simple as possible for taxpayers to prepare. FTB is required to ease taxpayers' compliance burden in the form and design of tax returns. State law enacted as a budget measure last year provided that ReadyReturn was to remain a pilot for FY 2005/06, unless later enacted legislation authorized its continuance.

THIS BILL

This bill would authorize FTB to provide ReadyReturn as a filing method option for taxpayers. This bill provides that FTB may provide all eligible taxpayers with ReadyReturn, as defined, which includes a record of the taxpayer's wages that have been reported by employers and the tax liability attributable to those wages reported.

The bill would require FTB to notify taxpayers that ReadyReturn is an available filing option for eligible taxpayers and include the following information in the notice:

1. Taxpayers may choose to view or file a ReadyReturn.
2. A description of ReadyReturn that includes but is not limited to the following statement:
"ReadyReturn gives a taxpayer access to the wage data received from his or her employer. ReadyReturn gives a taxpayer the option of viewing or filing a 'ReadyReturn.' A ReadyReturn is a completed tax return that is based on the following: wage data received from an employer, the taxpayer's filing status from the prior year, amounts withheld by the employer, and additional taxes owed to the state, or refund owed to the taxpayer."

3. Immediately after the description the following statement, in boldface and large font, is required:

"The ReadyReturn Program is an optional service for the convenience of taxpayers with simple returns. You are under absolutely no requirement to use this program. You may choose not to look at the online program or to look at the online program and not file the ReadyReturn. If you choose not to view or file a ReadyReturn, this will not affect your tax liability in any way."

The bill would require FTB to make this statement viewable on the ReadyReturn web site, and provide it to every taxpayer that uses the online ReadyReturn prior to logging in and prior to electronically signing an electronically submitted ReadyReturn.

The bill would provide that no negative inference will be drawn from a taxpayer's decision not to file a ReadyReturn or to file under a different method.

The bill would provide that if a taxpayer files a ReadyReturn, no late payment penalty will be assessed for any tax that should have been shown on the return and was not shown.

The bill would provide that an alternate method for obtaining a ReadyReturn in a paper format be developed for taxpayers without Internet access. This method may be eliminated if requests for paper returns fall below 10% of the total ReadyReturns filed in the immediately previous taxable year.

The bill would provide legislative intent language for FTB to provide all taxpayers with access to wage data or other tax return information reported by third parties and maintained on the records of the FTB by January 1, 2009. This bill would require FTB, at least six months prior to the implementation of this service, to report to the Legislature on the status of the successful implementation of an online system that will ensure taxpayer privacy and security of taxpayer data. If the FTB cannot guarantee the appropriate level of taxpayer privacy and security of taxpayer data by the January 1, 2009 deadline, this bill would require FTB to notify the Legislature and request an extension of that deadline.

The bill would provide that contingent upon the successful implementation of an authentication solution to ensure taxpayer privacy and security of taxpayer data, taxpayers shall be able to authorize their preparers or agents to access any information provided as part of the ReadyReturn. The bill would require FTB to work with providers of proprietary software to make taxpayer wage information available to taxpayers using the proprietary software.

The bill also provides express language authorizing the continuation of the ReadyReturn.

IMPLEMENTATION CONSIDERATIONS

Implementing this bill would not significantly impact the department's programs or operations.

LEGISLATIVE HISTORY

AB 2905 (Frommer 2005/2006) contained substantially the same language as the provisions of this bill, but did not require a report to the Legislature prior to implementation of taxpayer access to tax data. AB 2905 was passed out of the Assembly Appropriations Committee, but was placed in the inactive file by the author.

SB 1355 (Haynes 2005/2006) would prohibit the FTB from sending out any completed, pro-forma, or ReadyReturn to any taxpayer subject to the Personal Income Tax Law on and after July 1, 2006. This bill was introduced February 21, 2006, and was not heard in committee.

AB 139 (Committee on Budget, Stats. 2005, Ch. 74) authorized the continuance of the ReadyReturn pilot for the 2005/2006 tax year in the same manner as previously conducted, unless later enacted legislation authorizes its continuance.

PROGRAM BACKGROUND

On August 25, 2004, the three-member FTB directed FTB staff to develop and implement the ReadyReturn pilot. The objectives of the pilot were to reduce the filing burden on taxpayers, improve efficiencies in tax administration, and reduce operating costs for the department. The premise of the ReadyReturn was to use information already available to the department, such as W-2 information, to provide taxpayers their completed return for final approval and filing.

FTB staff deployed the ReadyReturn pilot in February of 2005. Approximately 50,000 taxpayers were invited to participate in the pilot based on characteristics commonly found on simple returns. Staff compiled returns for each taxpayer based on available data and sent the return to the

selected taxpayer. The taxpayer was given the option to accept the return as completed by the department, adjust the compiled information to reflect information not captured by the department, or reject the proposed return and file using a traditional method. Approximately 11,000 ReadyReturns were filed under the pilot.

In June of 2005, FTB completed a preliminary study to determine the effectiveness of the ReadyReturn pilot. The majority of ReadyReturn online survey respondents, 95%, felt that ReadyReturn was a service that government should provide and expressed their willingness to participate the following year. Based on the results of the pilot and FTB staff recommendations, the three-member Board unanimously voted on June 15, 2005, to make the ReadyReturn permanent.

On July 19, 2005, Assembly Bill 139, one of the budget trailer bills, was chaptered (Stats. 2005, Ch. 74). AB 139 included provisions that authorized the continuation of the ReadyReturn pilot for FY 2005/06, unless later enacted legislation is passed authorizing its continuance.

OTHER STATES' INFORMATION

The states surveyed include *Michigan, Massachusetts, Illinois, Minnesota, and New York*. These states were selected due to their similarities to California's economy, diversity of taxpayers, and tax laws. While these states generally provide opportunities for taxpayers to file electronic returns as well as paper returns, there is no indication that these states provide pro forma returns for any population of taxpayer.

FISCAL IMPACT

The paper return option for taxpayers would utilize an Interactive Voice Response (IVR) function that would interface with the FTB ReadyReturn processes to determine eligibility and initiate a mailing to the taxpayer. The reduction in net costs in subsequent years assumes increased participation in the ReadyReturn by eligible taxpayers.

Cost and Benefit	2006 Tax Year	2007 Tax Year	2008 Tax Year
One-time IT Costs-Online	(\$171,000)		
Yearly Costs- Online	(\$108,000)	(\$122,000)	(\$126,000)
One Time IVR Costs	(\$70,000)		
Yearly Costs-IVR		(\$19,000)	(\$19,000)
Yearly Staff Costs for Calls	(\$72,000)	(\$162,000)	(\$192,000)
Yearly Mailing Costs	(\$21,000)	(\$63,000)	(\$112,000)
Subtotal-Costs	(\$442,000)	(\$366,000)	(\$449,000)
Benefits from Online Filing	\$92,000	\$212,000	\$282,000
Benefits from Paper Filing	\$4,000	\$11,000	\$19,000
Net (Cost)/Benefit	(\$346,000)	(\$143,000)	(\$148,000)

ECONOMIC IMPACT

This proposal would not significantly impact state income tax revenues.

ARGUMENTS/POLICY CONCERNS

It is appropriate for government to provide ReadyReturn as a filing option because government imposes the burden to prepare and file a tax return. This proposal would promote fair and effective tax administration by increasing the ease of filing returns while capitalizing on opportunities to improve efficiency through the use of electronic processes and services.

LEGISLATIVE STAFF CONTACT

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