

ANALYSIS OF ORIGINAL BILL

Franchise Tax Board

Author: Hollingsworth Analyst: Deborah Barrett Bill Number: SB 1355

Related Bills: See Legislative History Telephone: 845-4301 Introduced Date: February 21, 2006

Attorney: Patrick Kusiak Sponsor: _____

SUBJECT: Ready Return Pilot/Repeal July 1, 2006 & Prohibit FTB To Continue Or Commence Any Similar Project

SUMMARY

This bill would prohibit the Franchise Tax Board (FTB) from sending any completed, pro-forma, or ReadyReturn to any taxpayer subject to the Personal Income Tax Law on and after July 1, 2006.

PURPOSE OF THE BILL

According to the author's office, the purpose of this bill is to eliminate the ReadyReturn as a filing option for California taxpayers.

EFFECTIVE/OPERATIVE DATE

The effective date of this bill would be January 1, 2007, and would become operative on and after July 1, 2006.

POSITION

Pending.

ANALYSIS

FEDERAL/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. Federal legislation is pending that would prohibit the IRS from developing its own "income tax electronic filing or preparation products or services". The IRS lacks any filing option similar to ReadyReturn.

Current state law authorizes 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. Current state law provides that ReadyReturn is to remain a pilot for FY 2005/06, unless later enacted legislation authorizes its continuance.

Under current federal law, information returns are required to be sent to the recipient and filed with the IRS by every person who makes payments of interest totaling \$10 or more to any person during any calendar year. Additionally, under current federal law, state and local entities that

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Department Director

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make payments of refunds of state or local income taxes (or allows credits or offsets with respect to taxes) totaling \$10 or more to any individual during any calendar year are required to provide an information return to the taxpayer and the IRS.

THIS BILL

This bill would provide that after July 1, 2006, FTB is required to discontinue the ReadyReturn pilot and is prohibited from continuing or commencing any similar project where FTB sends any completed, pro-forma, or ReadyReturn to any taxpayer subject to the Personal Income Tax Law.

IMPLEMENTATION CONSIDERATIONS

The department has identified the following implementation concern. Department staff is available to work with the author's office to resolve these and other concerns that may be identified.

In compliance with federal law, the department provides completed information returns for taxpayers that receive either state tax refunds or have been paid interest in excess of \$10.00 in a calendar year. It is suggested that this bill specify that the prohibition on providing completed returns applies to completed "income tax" returns to prevent any misunderstanding of the author's intent.

TECHNICAL CONCERNS

On Page 2, Line 11, it is suggested that the language "any completed, pro-forma, or ReadyReturns" be amended to read, "any completed return, any pro-forma return, or ReadyReturn return."

LEGISLATIVE HISTORY

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

AB 2905 (Frommer 2006) would authorize the implementation of ReadyReturn as a permanent filing option for taxpayers. This bill was introduced on February 24, 2006, and has not been heard at this time.

BACKGROUND

On August 25, 2004, the three-member Franchise Tax Board 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.

FTB staff deployed the ReadyReturn pilot in February, 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, 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 ReadyReturn pilot as a 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 department anticipated reduced operating costs with the expanded use of the ReadyReturn by taxpayers. These reduced costs were primarily savings attributed to the conversion of traditionally filed returns to returns filed electronically, as well as savings related to the improved accuracy of the electronic returns. Making ReadyReturn a permanent program would require initial start up and annual maintenance costs. It would also, over a four year period, realize approximately \$236,000 in net savings. The anticipated net savings would not be realized with the provisions of this bill.

ECONOMIC IMPACT

This bill would not impact the amount of income tax revenues owed under current law. There would be no revenue impact because current law already requires this pilot to be discontinued as of June 30, 2006

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. ReadyReturn promotes fair and effective tax administration by increasing the ease of filing returns for taxpayers while capitalizing on opportunities to improve efficiency through the use of electronic processes and services.

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