

CalFile Program Board Action Item

I. Request for Action

In January 2005, the Franchise Tax Board (FTB) deployed the CalFile program for its third filing season.¹ CalFile is FTB's free, direct, online e-file application. Our objective in deploying CalFile was to provide a free, citizen-to-government, e-file experience for our taxpayers.

Currently, CalFile provides the functionality to create and e-file all returns meeting the criteria for the 540 2EZ, the majority of the returns meeting the criteria for the 540A², and a very limited number of those meeting the 540 criteria,³ totaling about 6.3 million returns eligible for the CalFile program.

This is a request for approval to continue the CalFile program. If approved, FTB staff will continue CalFile as described above, limiting the eligible universe of returns to about 6.3 million.

II. Taxpayer Acceptance of CalFile

Beginning with the CalFile pilot in 2003, each year we have provided CalFile users the opportunity to give us feed-back on their filing experience by using our online survey. The survey allows us to measure taxpayer satisfaction and understand why taxpayers chose to use CalFile. We ask taxpayers to complete the survey directly after filing their return. Twenty-two percent of CalFile users responded to the survey this year. Overall, the majority of survey respondents were satisfied with the CalFile program and would use it again in the future.

Key findings from the 2005 CalFile survey include:

- 93% of respondents indicated that CalFile was *very easy to use* or *easy to use*.
- 95% of respondents indicated their overall satisfaction level with CalFile to be *satisfied* or *very satisfied*.
- 97% of respondents indicated that they would choose CalFile again.

III. How Does CalFile Work?

CalFile uses a "formless" approach for tax return filing. In other words, taxpayers do not need to select a form type, such as 540A, before beginning the CalFile process. Taxpayers are able to complete a CalFile return in thirty minutes, or less, based on recent survey results. For the convenience of taxpayers, the final, printable tax return that CalFile provides to taxpayers is a traditional FTB tax form, as taxpayers would expect.

IV. CalFile Volumes and Cost

As of May 30, we have received over 155,000 CalFile returns for the 2005 process year. This is an increase of 45% over last year's volume of 107,000 returns, at the same time. For the 2006 process year, we anticipate receiving over 215,000 CalFile returns, and about 280,000 in 2007. The ongoing annual cost for the CalFile program is approximately \$89,500. This includes any adjustments needed due to legislative or tax forms changes.

¹ Initially the *CalFile* program was called *NetFile*. Due to potential confusion with other online products, FTB changed the name in October 2003.

² Functionality is provided for the 540A taxpayers that are wage earners with interest and dividend income only. Itemized deductions (IRS Schedule A) are supported. Major exclusions are those taxpayers with business income and deductions and/or whose income levels require consideration of the Alternative Minimum Tax calculation.

³ Functionality is provided for the 540 taxpayers meeting the same tax situations as described for the 540A, but includes those with additional income from lottery winnings.

CalFile Program Board Action Item

V. CalFile Privacy and Security

FTB is required by law to protect data integrity and to prevent disclosure of private, proprietary, or sensitive data.

FTB provides layered security using a combination of technologies that includes devices to protect all information from unauthorized viewing or corruption, by either internal or external sources. Specifically, routers, firewalls, switches, protection against malicious code, and intrusion detection devices have been configured to shield FTB's confidential information.

CalFile conforms to all existing departmental security policies, state and federal law, in addition to state and federal regulations and standards. We electronically authenticate CalFile users before allowing access to CalFile.

Information contained in the CalFile return transmissions falls under the same disclosure requirements as all tax return information. Thus, FTB employees are bound by terms of their employment to strictly follow the rules of disclosure, for which they receive training each year.

VI. Previous Board Actions Regarding CalFile

CalFile was established at the direction of the three-member Franchise Tax Board at its November 26, 2002 meeting. In particular, the Board directed FTB staff "to make the following California income tax returns available for free, direct electronic filing for the 2002 tax year filing season, or as soon as possible thereafter: The 540 2EZ Direct, previously approved by the Board, all 540As; and all 540s, including those with schedules or a federal 1040 to be attached as practicable, meaning, forms used by no less than 125,000 California taxpayers."

In December 2003, the three-member Board enacted a moratorium limiting the expansion of the CalFile program.⁴ Regarding the conditions of the moratorium, the Controller stated, in part, "*...we would be directing the staff not to invest any additional resources, financial or personnel, on developing new attributes, functions or features; but solely focus on proposing the highest level of services for the current limited offering.*"

FTB's adherence to the moratorium was based on the condition that "industry" would continue to provide free e-file to FTB's taxpayers. In January 2004, two key industry providers withdrew their free e-file offers. FTB has continued to abide by the agreement regardless of the withdrawal of free offers by industry. FTB has not added functionality, form types, or features to the CalFile program since the moratorium went into effect. Many e-file providers continue to serve California taxpayers by offering various free e-file options. FTB features these free e-file offers on its Website during the tax filing season.

⁴ Two members approved continuing the CalFile Program which included enacting the moratorium, one member abstained.