

Taxpayer Data Access Board Action Item

I. Request For Action

This is a request for approval to:

1. Make Website application changes to allow taxpayers to view their California wage and withholding information.
2. Study the feasibility of allowing taxpayers to import California wage, withholding, and estimate payment information into their tax preparation software and CalFile.

II. Introduction

An important component of FTB's strategic objectives is to provide services to taxpayers that help reduce their filing burden. We strive to achieve this in large part by providing Website services that focus on accessibility, convenience, and transparency. Our recommendation centers on the central functional component of these services, whereby we provide taxpayers and their authorized representatives access to data that we have, such as payments made, refund status information and outstanding balances due. As outlined below, we recommend continuing to expand our customer service and burden reduction efforts in this area.

III. Conceptual Overview of Data View and Import

The general premise of our conceptual recommendation is to provide taxpayers and their authorized representatives electronic access to more data for the purpose of assisting with tax return completion. Specifically, we would initially provide online view access to California wages and withholding. We would subsequently pursue the ability to electronically import (into tax preparation software products and CalFile) complete California wage and withholding information, as well as estimate payments¹.

A. View California Wage and Withholding Information

Taxpayers and their authorized representatives could be able to access an online application to view California wage and withholding information we received from the Employment Development Department. We preliminarily estimate that we can provide this access by leveraging existing applications.

¹ Importing data would only be done with the taxpayer's authorization.

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B. Import W-2 and Estimate Payment Information

Following appropriate feasibility study and approval for this functionality, we recommend first offering data import capabilities to tax professional and/or do-it-yourself services, followed by CalFile. Our overall recommended implementation approach to import the data would be in yearly phases.

IV. Business Opportunity Overview

Withholding and estimate payment discrepancies consistently generate among the highest volumes of tax return fallout and Return Information Notices (RINs) sent to taxpayers. This creates a burden on taxpayers, tax professionals, and our processing efficiency.

Considering that over 60% of personal income taxpayers e-file their returns and that another 30% use tax preparation software to generate paper returns, opportunities to help reduce withholding and estimate payment discrepancies via electronic reconciliation means are significant. The following are a few pertinent points to consider:

- So far in 2006, of the 14 million tax returns received, 12 million were either e-filed or filed on paper using a tax preparation software product.
- Of the 8.6 million e-filed returns received in 2006, tax professionals prepared 83%. They prepared approximately 65% of all returns.
- In 2005, there were over 18 million California wage earners.
- In 2006, over 300,000 tax returns were filed with incorrect withholding.
- In 2006, over 150,000 RINs were issued correcting estimate payment discrepancies – the highest volume of RINs issued by the department.

V. Related Considerations

A. Authentication

Implementation of a solution for importing taxpayer data is contingent upon an appropriate authentication mechanism that authenticates the taxpayer and the requester, and that ensures that the taxpayer has given the authorization to access and import their data. FTB's current authentication method (Customer Service Number and Social Security Number) does not entirely meet this need. The appropriate authentication solution will most likely entail a project of its own.

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B. Project Lifecycle Constraints

Appropriate implementation is subject to the project lifecycle process. (For instance, if Budget Change Proposal funding is needed to develop the data import portion, the earliest that funding would be available would be July 2008.)

C. Stakeholder Interest and Preferences

Tax professional and taxpayer preference as to which data is most important to view or import has not been recently formally studied. This includes access to prior year information. Nor has their preference been assessed as to whether the process of importing data is more valuable to them than viewing it. Tax professionals have long asked for more access to information to assist in return preparation. We are currently gauging interest via anecdotal methods, but a more formal study would be required to fully understand stakeholder needs.

D. Taxpayer Privacy and Security Concerns

Taxpayers may have additional privacy and security concerns associated with tax professionals or software providers importing or viewing their data. Since the recommendation requires taxpayer approval to access the data, their concerns may already be addressed.

E. Policy Implications

From a tax administration standpoint, FTB may be the first tax administrator to allow the ability to import taxpayer information into third-party products. It is not known whether there are national or state policy concerns with doing this, and if so what the impact of those concerns on us may be. The importing of tax information into software products from financial institutions, employers, and payroll processors is an established business model for some tax preparation software companies.

VI. Staff Recommendation

1. View Wages and Withholding

FTB staff recommends that we move forward with implementing an appropriate view-only solution as soon as is practicable.

2. Import Data

FTB staff recommends formally studying the business and technical feasibility of importing taxpayer data, including engaging stakeholders. Upon completion of the feasibility study, staff will report back to the Board on its findings and recommend an appropriate implementation plan.