

## **MEMORANDUM OF UNDERSTANDING**

Inasmuch as electronic tax filing benefits the State of California and taxpayers by providing convenience, efficiency and cost savings in the administration of tax laws; and the Franchise Tax Board is committed to maximizing the use of electronic filing; and in an effort to maximize the use of electronic filing, the California State Controller and Chair of the Franchise Tax Board, Kathleen Connell, facilitated a cooperative discussion between representatives of private industry and representatives of the Franchise Tax Board staff for the purpose of identifying a process that will maximize the use of electronic filing for taxpayers using California 540 2EZ form. The representatives participating in this March 12, 2002, discussion are signatories to this Memorandum of Understanding and by signing this Memorandum of Understanding agree to implementation by the Franchise Tax Board and its staff, of the process described herein.

Now, therefore, in consideration of the Franchise Tax Board's issuing direction to its staff to implement this Memorandum of Understanding and for the purpose of agreeing to the deployment of an electronic version of the California 540 2EZ, the parties set forth below accept the following objectives for the form.

The form shall:

- Provide a convenient electronic method for filers to transmit tax data
- Not provide arithmetic calculations or tax table look-up features
- Be free to use
- Provide an appropriate level of privacy; minimize risk of disclosure of data to third parties, disclose to filers, prior to use, all risks inherent in the use of the electronic form and process; and procedurally preclude government monitoring of draft returns or key strokes
- Provide secure transmission of data using 128-bit secure socket layer encryption
- Provide for acknowledgment of successful transmission and receipt of complete data by the Franchise Tax Board

The parties further agree that one of the following solutions will be, subject to Franchise Tax Board approval, implemented to meet the objectives above:

- A) Download the California 540 2EZ form for offline preparation and subsequent transmission to the Franchise Tax Board. A prototype solution, involving the downloading of a graphic California 540 2EZ form using free Adobe (.pdf) form utility software, was demonstrated to interested parties on March 12, 2002. As demonstrated to the group in attendance, this approach would work as follows: A taxpayer would obtain a copy of the California 540 2EZ form from the Franchise Tax Board web

site or from other third party web sites. The form would be downloaded using free Adobe software and then filled in offline on the taxpayer's computer, or a public access Internet terminal. Upon completion of the filled-in form, a taxpayer would initiate a process specific to the downloaded form that transforms the taxpayer-entered data into a format to be transmitted directly and securely to the Franchise Tax Board's Direct Filing Portal using the taxpayer's Internet connection and 128-bit secure socket layer encryption. The Franchise Tax Board would present the taxpayer with an acknowledgment of filing. At any point in the process, the taxpayer would have the option to print a copy for record-keeping purposes. While questions about the limitations of Adobe software were raised at the March 12 demonstration about the downloaded form approach, it was generally agreed that the issues could be resolved technically, or be otherwise remediated through property risk disclosures to filers.

- B) Create a clearinghouse to further the public interest by routing California 540 2EZ filers to commercial sector, philanthropic and other web sites. The parties agree that a variety of viewpoints from the commercial e-file industry exist with regard to the terms and conditions that would apply to the hosting and operation of a clearinghouse. The system developed to implement this process would forward the information provided by filers to the Franchise Tax Board on a timely basis (to be defined) and will present the data in a format compatible with the Franchise Tax Board's systems.

The parties agree that either alternative can be successfully deployed. This Memorandum of Understanding is for the sole purpose of memorializing the recommendations made by the parties present. This Memorandum of Understanding does not imply or constitute any contract for services or products or arrangement for payment or other consideration by the Franchise Tax Board to any of the private sector signatories to this agreement. This Memorandum is subject to ratification by vote of the three-member Franchise Tax Board.

FileYourTaxes.com

Date:

By: Atilla Taluy

H&R Block

Date:

By: Robert Weinberger

IBM

Date: *March 19, 2002*

By: *John Allen*  
John Allen

Intuit

Date:

By: Bernie McKay

California Taxpayers Association

Date:

By: Greg Turner

Computer & Communications Industry Association

Date:

By: Scott Baugh