



I. Project Status-at-a-Glance

- Scope:** Nearly 6.3¹ million California taxpayers are eligible to use NetFile.
- Costs:** Costs remain within the original estimate reflected in the project feasibility study report of \$264,000 and less than 3 PYs.
- Implementation:** NetFile was made available to the public on April 13, 2003.

II. Background

The NetFile Project was established at the direction of the 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.”

III. Scope of NetFile Project

A. NetFile Eligibility

Currently, NetFile provides the functionality to create and e-file all returns meeting the criteria for the 540 2EZ (over 4 million), the majority of the returns meeting the criteria for the 540A (over 2 million)², and a very limited number of those meeting the 540 criteria,³ totaling about 6.3 million returns.

The initial pilot version of our NetFile system provides about 6.3 million of California’s 14.4 million taxpayers the opportunity to use “free, direct electronic filing.” Based on previous Board direction, future enhancements to NetFile will provide expansion of eligibility to the majority of California’s taxpayers.

B. Taxpayer Experience

The NetFile Project uses a “formless” approach for tax return filing. In other words, taxpayers do not need to select a form type, such as 540A, etc., before beginning the NetFile process. Based on the experience of FTB employees who have used NetFile, the NetFile process takes less than 20 minutes. For the

¹ The NetFile FSR (*I-File Direct, FSR 02-15, December 16, 2002*) shows the potential universe as 8.3 million. The potential universe has been reduced because the eligibility criteria were changed for the initial year of implementation. Future years will include the more complex returns.

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 qualifying for the Child and Dependent Care Credit 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.



convenience of taxpayers, the final, printable tax return that NetFile provides to taxpayers is a traditional FTB tax form, as taxpayers would expect.

IV. Costs and Savings

FTB staff estimated first-year NetFile Project costs at approximately \$264,000 and 2.6 PYs. Based on enhancing the system to expand eligibility to more taxpayers, by fiscal year 2004/2005, we anticipate having saved \$270,000 and 13 PYs. Costs associated with processing e-filed returns are estimated to be about one-half of the cost to process paper-filed returns.

V. Privacy, Security and Confidentiality

Based on input from our taxpayers and from various privacy rights advocates, we have learned that there are some taxpayers who prefer a citizen-to-government tax filing experience, without the addition of a third party. The NetFile Project is responsive to the needs of these taxpayers in that it provides taxpayers a direct filing connection to their government.

NetFile conforms to all existing departmental security policies; state and federal law, regulations and standards; and industry security best practices. The transaction and transmission security standard is encrypted data over a secure socket layer (128-bit SSL).

VI. Capacity

As of April 15, we have processed 9.1 million current year tax returns. E-file accounted for more than 3.5 million returns of the total processed. This continues a trend reflecting growth of about 18% compared to last year. Statistics also show continuing strong growth in use of FTB's website for tax information and other self-service help: visits have totaled over 33 million contacts since January, a growth of 91% compared to last year.

Between April 13 and April 15, we received more than 10,000 NetFile returns. We anticipate an additional 5,000 NetFile returns between April 16 and October 15. We are confident that NetFile anticipated volumes for this year and for future years are within the capacities of our systems.