

The Project

As noted above, *e-file* is not a new project for the IRS. It is one that has been evolving over the past 16 years, responding to advances in technology and social acceptance of both computing and the Internet as a tool for business. This is in congruence with the overall nature of the project, which participants' characterized as deliberately slow and cautious. The IRS, in dealing with public tax dollars, was not eager to appear revolutionary or hasty as it migrated to the Internet. Public scrutiny of this highly visible agency demanded that the agency fully think through issues around technology platforms, public acceptance, privacy and security, and intense Congressional attention.

The legal environment

There are two components to the relevant legal environment that affects the *e-file* program; and tax reform law and information policy in the United States. First, the tax law. . The IRS RRA of 1998 (Public Law 105-206) was a major piece of legislation affecting the management and processes of the IRS vis the taxpayer. This act was signed into law on July 22, 1998 by President Clinton. One of the key components of the RRA was the objective of making *e-file* a routine business process. The Act directs the IRS to reorganize from its then current structure into a structure that serves groups of taxpayers with similar needs--a customer orientation, in line with the Clinton administration initiative to transform government via the National Partnership for Reinventing Government (formerly the National Performance Review). The NPR had an overarching goal of service to the citizens and customers of the U.S. federal government, and strongly promoted the use of information technology (IT) to create a fast, free, seamless information and business environment with the federal agencies.

The RRA was a significant piece of tax reform legislation. The key sections of the RRA that affect the *e-file* program are:

Section 2001c -- Promotion of Electronic Filing.

Congress has determined that there is a need for the implementation of a comprehensive strategy which will actively encourage the use of electronic filing in the tax paying and tax preparation communities. This provision authorizes the use of mass communication, such as radio, television, and print media and other means to promote e-filing by focusing on the benefits of such a program.

Section 2003d -- Internet Availability.

While the IRS had already made provisions for access to some publication at its web site, this provision of the RRA requires a more robust attention to Internet access to documents. In specific, after December 31, 1998, the IRS must ensure that all tax forms, publications, guidance, and instructions for taxpayers must be contained in a publically searchable electronic database. This must occur in conjunction with the issuance of any paper products

Section 2003e -- Procedures for Authorizing Disclosure Electronically.

This section covers the authorization from tax preparers to communicate with the IRS regarding all electronically filed returns. This requires that the IRS have a full disclosure and consent process for taxpayers to enable approved third parties to discuss their tax returns.

Section 2005 -- Online Access to Account Information.

By December 31, 2007, the IRS must make available to tax payers the ability to review their accounts with the IRS, online. All necessary safeguards to privacy must be insured by the IRS.(2)

In the area of information policy, a number of laws, including the Paperwork Reduction Act of 1995 (Chapter 35 of Title 44, U.S.C.), the Clinger-Cohen Act of 1996 (P.L. 104-106), and the Government Paperwork Elimination Act of 1999 (P.L. 105-277, Title XVII), have had influence on the creation, development and deployment of the *e-file*. A major influence government-wide for the management of information resources is the Paperwork Reduction Act of 1995 (PRA); a lengthy and wide-ranging law, first enacted in 1980. It was revised in 1986 with some changes, and then underwent major revisions in 1995. The PRA was enacted to reduce the paperwork burden on private citizens and businesses that interact with the government. It emphasizes the effective and efficient use of IT to achieve paperwork reduction.

The U.S. Congress signed the Government Paperwork Elimination Act (GPEA)(P.L. 105-277 Title XVII) into law October 1998. The defining features of this piece of legislation included the following:

- SEC. 1702. Authority of OMB to provide for acquisition and use of alternative information technologies by

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- executive agencies;
 - SEC. 1703. Procedures for use and acceptance of electronic signatures by executive agencies;
 - SEC. 1704. Deadline for implementation by executive agencies of procedures for use and acceptance of electronic signatures;
 - SEC. 1705. Electronic storage and filing of employment forms;
 - SEC. 1706. Study on use of electronic signatures;
 - SEC. 1707. Enforceability and legal effect of electronic records; and
 - SEC. 1708. Disclosure of information(3).

In short, GPEA enables citizens to file and receive information electronically with the federal government. By 2003, the federal agencies must provide alternatives for electronic public access to their documents with electronic filing of documents by the public also in place. Thus, GPEA creates a framework for the acceptance of electronic records as legal, valid and enforceable. It encourages federal agencies to promote electronic recordkeeping, filing, maintenance, submission, and archiving. This opens up a wide array of possible types of electronic information interactions including those of a transactional nature.(4)

Another law that helped set the stage for electronic government and cross-agency partnerships is the Information Technology Management Reform Act of 1996 (later renamed the Clinger-Cohen Act). As introduced by Senator Cohen, the intent of the Act was to be:

A bill to facilitate, encourage, and provide for efficient and effective acquisition and use of modern information technology by executive agencies; to establish the position of Chief Information Officer of the United States in the Office of Management and Budget; to increase the responsibility and public accountability of the heads of the departments and agencies of the Federal Government for achieving substantial improvements in the delivery of services to the public and in other program activities through the use of modern information technology in support of agency missions; and for other purposes. (S.946)

Coincident with the passage of the Clinger-Cohen Act was Executive Order 13011, "Federal Information Technology" of July 16, 1996. This policy integrates provisions of the Clinger-Cohen Act of 1996, the Paperwork Reduction Act of 1995, and the Government Performance and Results Act of 1993. More importantly, it put the Presidential "seal of approval" on the value and importance of information and its attendant technologies to government. This Executive Order is but one of many information-focused policies created during the Clinton Administration. The creation of the National Performance Review on March 3, 1993 (later renamed the National Partnership for Reinventing Government) represented the Administration's visible intent to use information technology to create a more responsive and fast-acting government.

The current Bush Administration is also on record to facilitate the move to an electronic federal government. The President's Management Agenda of 2001(5) has electronic government as a major administration objective. The 2003 Budget of the United States places new and more thorough attention on information technology and the implementation of electronic government projects.

Other oversight mechanisms

As part of the governance structure overseeing the results of the *e-file*, the RRA created an oversight board to monitor the program and make sure it is organized and operates in a manner that facilitates meeting the mission of the IRS and the ETA. An additional governance layer for *e-file* is the Congress. The RRA requires the IRS to report annually to Congress on their progress toward developing a return-free tax system for appropriate taxpayers.

The Electronic Tax Administration Advisory Committee (ETAAC) is a private sector advisory body established by Congress to assist the IRS in meeting its primary goal of 80% of all tax returns filed electronically by the year 2007. ETAAC was established in 1998 and submits annual reports to Congress as mandated under the RRA. In its advisory capacity, ETAAC also provides programmatic advice to the IRS, makes recommendations to Congress that it believes the IRS should follow, and identifies to Congress the main risks, opportunities, and challenges the IRS in a given tax year.

The Council for Electronic Revenue Communication Advancement (CERCA) is another oversight group created in 1994 as a non-profit organization. Its membership includes a broad array of private and public sector organizations that are committed to advancing the use and practice of electronic filing. CERCA provides advice and information to the ETA, giving them up-to-date stakeholder feedback on key electronic revenue issues. Its

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board members and officers come from a range of organizations including Intuit, H&R Block, Jackson Hewitt, CSC, TRW, Household Finance, Bank of America, and the South Carolina Department of Revenue.

Some of the public sector members of CERCA include the South Carolina Department of Revenue, New York Department of Tax and Finance, and the Social Security Administration. Private sector members range from banks and financial institutions (Bank of America, Bank One, Mellon Bank, American Express), computer technology and service companies (ADP, CSC, EDS, IBM, Microsoft, UNISYS), to tax return providers (Peoples IncomeTax, Refunds Now, Official Payments Now), to the tax return industry (Jackson Hewitt, Intuit, H&R Block)(6). There are five standing committees for CERCA:

- Electronic Filing
- Electronic Commerce
- Business E-Filing
- Electronic Government
- Systems Modernization

The technology environment

The *e-file* program relies on a combination of technologies at the present time: the telephone for the Telefile component, the Internet for electronic retrieval and submission of tax documents, and the approved software partners, e.g. Quicken, TaxACT, or TaxWise, to use in the tax preparation and submission process. Another piece of the technology picture is composed of the providers of online tax preparation services such as Taxcite.com, Tax-engine.com, Taxbrain.com, among others. For a complete list of these partners, see http://www.irs.gov/elec_svs/partners.html.

An examination of a high level architecture for the Revenue Accounting Process indicates a high degree of system complexity. The Revenue Accounting Process consists of 84 systems with 195 projects. The information collection aspect of the IRS also contributes to the system complexity. The annual information collection burden for the Department of Treasury is 6156.8 millions of hours. This is considered a statistical outlier in the Information Collection totals, with the Department of Labor having the next highest collection burden at 181.59 millions of hours. The IRS contributes most of the burden hours that Treasury reports to the Office of Management and Budget.

Some technical issues did come up in the development of the program. There was a need to make some major changes to the legacy system used by IRS. At the back end of processing, changes had to be made to accommodate credit card payments, and electronic authorizations. There was also the need to create an interface with the customer that was "friendly" and easy to use.

This project continues to be under intense Congressional scrutiny as well as the subject of many U.S. General Accounting Office audits. The IRS was on the "high risk" list of federal agencies, promulgated by the GAO. The *e-file* was one component of a much larger modernization project of the IRS, a project that was over budget, over time, and not yet completed.

An important note here regarding the technology environment of the IRS is that its history was troubled and there were few IT implementation successes.

The IRS website, the newly revamped *Digital Daily* (January, 2002), is another active technology component of *e-file*. The web site (launched December, 1997) received more than 1.5 billion hits from January through April 16, 2001, a 57 percent increase from the past years hit rate. Web site visitors spent an average of 11 minutes on the *e-file* site, with most users going to the page for electronic tax filing. Another feature of the web site is the ability to download forms and documents published by the IRS. The number of these downloaded through February 2001 was 103 million; double the number of forms and documents downloaded over the same period last year. The transactions offered at the IRS web site include government-to-business, government-to-citizen, and government-to-government.

(2) For a more complete look at the RRA and its implications, access the IRS website at www.irs.gov, and connect to the "tax regulations" page.

(3) Government Paperwork Elimination Act; October 15, 1998. *Congressional Record--Senate*; S12627.

(4) Government Paperwork Elimination Act; October 15, 1998. *Congressional Record--Senate*; S12627.

(5) See the Analytical Perspectives, Budget of the United States Government, Fiscal Year 2003 and the Exhibit 53s (<http://www.whitehouse.gov/omb/budget/fy2003/index.html>) and the The President's Management Agenda (<http://www.whitehouse.gov/omb/budget/fy2002/mgmt.pdf>).

(6) This list of members is not exhaustive. For a complete list see www.cerca.org/members