

**STATEMENT OF ROBERT WEINBERGER**  
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**IRS HEARING ON “REAL-TIME TAX SYSTEM”**  
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Thank you for inviting me to comment on Commissioner Shulman’s “real-time tax system” initiative.<sup>1</sup> That the IRS is inviting public comment early and opening a dialogue with stakeholders is very positive.

The proposal is bold and imaginative. It represents precisely the kind of thinking needed if we are to leverage technology to modernize tax administration in America, a field in which we have lagged. Let me comment on three aspects: the goal; overcoming obstacles; and ways to strengthen the vision.

### **The Goal**

In concept, the idea of accelerating information reporting and frontloading government data to enable taxpayers and tax preparers to more accurately prepare tax returns is laudable.

The current system in which information reporting statements are sent to taxpayers and the IRS—directly or indirectly via the Social Security Administration (SSA)—takes months, is clunky, and invites unnecessary transcription errors. The ability to download the information from the IRS (as many taxpayers and tax preparers already do from payroll processors, financial institutions and brokerage houses) can improve accuracy and compliance, minimize post-refund error corrections, allow the IRS to deploy its staff more efficiently, and alert taxpayers to tax benefits they might otherwise miss.

It can also ease burdens on some taxpayers who file in good faith using unverified information, spend their refund, and months later receive a notice requiring them to repay with interest for innocent errors.<sup>2</sup>

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<sup>1</sup> My comments are my own, not those of the Aspen Institute or my former employer, H&R Block.

<sup>2</sup> Commissioner Shulman articulated his “real-time” data matching and retrieval proposal in three speeches. *See* “Prepared Remarks of IRS Commissioner Doug Shulman at the National Press Club,” IR-2011-38, April 6, 2011, <http://www.irs.gov/newsroom/article/0,,id=238204,00.html>; “Prepared Remarks of IRS Commissioner Doug Shulman at the AICPA Fall Meeting in Washington, D.C.,” IR-2011-108, Nov. 8, 2011, <http://www.irs.gov/newsroom/article/0,,id=249453,00.html>; and “Prepared Remarks of Douglas H. Shulman, Commissioner of Internal Revenue, CERCA Fall Meeting,” Arlington, VA, Oct. 12, 2011, <http://www.irs.gov/newsroom/article/0,,id=247196,00.html>. The Commissioner told the AICPA, “Under the vision of a real time tax system, the IRS could embed third-party information into its pre-screening filters, and could provide the opportunity for taxpayers to fix the return before we accept it, if it contains data that does not match our records. This is a tectonic shift. We would have more accurate returns and deal with many more problems up-front. We could shift resources to spend more money getting it right in the first place, and do less back-end auditing.” Taxpayer Advocate Nina Olsen has made a similar legislative recommendation to reverse the “pay refunds first, verify eligibility later” approach, calling for a Treasury Department study and implementation over six years. National Taxpayer Advocate,

## Some Hurdles

While the real-time concept has clear benefits, tradeoffs and costs must be carefully considered. A number of technical and political hurdles will need to be overcome before it can be implemented.<sup>3</sup> A few examples:

- **Changing Filing Deadlines.** Current law requires employers to send W2s to employees by January 31 and to SSA by March 1, if on paper, and March 31, if filed electronically; 1098s, 1099s and other information returns have similar deadlines.

If real-time matching is to work, these deadlines will have to be advanced; or the filing season may have to shift to, say, April 15 to June 15; or tolerances for inaccuracies may have to be relaxed; or some combination of these. Each has downsides.

For example, in recent years, despite advances in information technology that enable faster processing, bankers and brokers have pressed for *extended* deadlines to reduce inaccuracies and the number of corrected forms.<sup>4</sup> Similarly, April 15 has an iconic status for Americans. Delaying the filing season or just the mid-January starting date is likely to invite opposition from taxpayers and tax return preparers, especially if it means delayed refunds. Yet winning the support of affected payers, taxpayers, and tax preparers is essential to success.<sup>5</sup>

The hard reality is that it takes time for taxpayers to review their information returns and alert issuers to any problems; time for third-party information reporters to correct data before submission to the IRS or SSA; time for SSA to clean data before it is sent to the IRS; and time for the IRS to perfect and post all the data so that it can be used for matching. By April 15, less than 1% of W2s and only 46% of 1099s are posted to IRS's Master File; 99% are not available until September; and actual matching may occur many months later. It is important that trying to telescope those months into 1-2 weeks not come at the expense of accuracy.<sup>6</sup>

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2009 Annual Report to Congress, pp. 322, 338-45, [http://www.irs.gov/pub/irs/utl/2\\_09\\_tas\\_arc\\_vol\\_1\\_lr.pdf](http://www.irs.gov/pub/irs/utl/2_09_tas_arc_vol_1_lr.pdf).

<sup>3</sup> The IRS's Electronic Tax Administration Advisory outlines issues to be addressed in its June 2011 *Annual Report To Congress* (Pub. 1345, Rev 6-2011), pp. 35-44, <http://www.irs.gov/pub/irs-pdf/p3415.pdf>. Existing matching capability may not be fully used. See TIGTA, *Better Use of Available Third-Party Data Could Identify and Prevent More Than One Billion Dollars in Potentially Erroneous Refunds*, 2010-40-062, July 13, 2010, <http://www.treas.gov/auditreports/2010reports/201040062fr.pdf>.

<sup>4</sup> E.g., the due date for 1099-MISC forms sent to taxpayers is extended by 15 days if payments are reported in boxes 8 or 14. See IRS, "2011 Instructions for Payer," <http://www.irs.gov/pub/irs-pdf/f1099misc.pdf>.

<sup>5</sup> Stakeholder support is especially important if Congressional approval is required. For example, after the small business community protested the burden, Congress repealed new requirements that businesses send 1099 forms for annual purchases of \$600 or more to vendors and the IRS and collect Form W9 information. The Comprehensive 1099 Taxpayer Protection and Repayment of Exchange Subsidy Overpayments Act of 2011 (P.L. 112-9, April 14, 2011), repealed §9006 of the Patient Protection and Affordable Care Act of 2010 (P.L. 111-148, Mar. 23, 2010).

<sup>6</sup> This assumes an early January information form filing deadline. Determining taxable income at year-end can be complex as employers consider coding and adjustments for education or adoption reimbursements, dependent care facilities, stock options, bonuses, interest-free loans, parking, scholarships, flexible spending accounts, deferred compensation plans, insurance benefits, noncash fringe benefits, etc. Even with the current deadlines, the IRS does not

- Correcting IRS Rejects and W2 Errors.** Even before the IRS receives and uses much third-party information return data, it screens incoming e-filed returns and rejects many—14%, or 18 million in 2010—for one or more of over 900 reasons.<sup>7</sup> For example, if a taxpayer’s SSN or primary name and spelling or employers’ identification numbers do not match IRS’s Master File records. Taxpayers or their return preparers must resolve these problems before the IRS permits e-filing. A real-time tax system may reduce some of the mismatches, but many of these errors will still need to be resolved.

At the same time, the SSA presently receives 217 million W2s. At each stage of the processing chain, data are reviewed and edited, sometimes manually. In 2011, employers corrected 2.3 million W2s. Even after employer corrections, about 10% still had a name/SSN that didn’t match SSA records; after additional SSA inquiries and corrections, 4% of all W2s, or 8.7 million, were sent to the Earnings Suspense File.<sup>8</sup> That is a formidable number that still needs attention.

The Commissioner has said, “Less than 1% of total information return volume is from amendments or corrections to the original return,” suggesting that most of the data would be reliable for real-time use if it were available. But the number of corrections made before data get to the IRS may be much higher. And even if only 1% of information returns did need amendment or correction, 1% of 2.6 billion information returns is 26 million. More than 3% of taxpayers would be affected. To reduce such a large number of pre-filing issue resolutions the IRS would have to consider expanding math error authority so some of the returns can be processed and refunds issued promptly with disputes resolved later.<sup>9</sup>

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use the data for many months: “Beginning in February, SSA and IRS also validate and edit more than one billion information returns provided by payers. However, these validated and edited information returns are not generally accessible to match against tax returns until July. . . . Delays in the processing of information returns are caused by transcription of paper information returns, payer extensions for filing returns, and payee corrections to information returns (for example, the IRS may detect a missing or invalid taxpayer identification number and request that the payer supply a corrected number).” U.S. Department of the Treasury, *Report to the Congress on Return-Free Tax Systems: Tax Simplification Is Prerequisite* (December 2003), n. 45, p. 38, <http://www.treasury.gov/resource-center/tax-policy/Documents/noreturn.pdf>.

TIGTA reported 8 million SSN mismatches in 2002; and IRS reported that prior to improving its TIN matching program as part of e-services, “The average volume of Information Returns filed with the IRS, which indicate a potentially incorrect TIN/Name combination, exceeds 30 million each year.” IRS, *TIN Matching: “Reducing ‘B Notices’ One TIN at a Time,” A Guide To Users’ Most Frequently Asked Questions*” (Rev. June 30, 2006), [http://www.doa.virginia.gov/Financial\\_Reporting/1099/TM\\_FAQS7.pdf](http://www.doa.virginia.gov/Financial_Reporting/1099/TM_FAQS7.pdf); “IRS Launches First of Online Business Tools,” IR-2003-128, Nov. 6, 2003, <http://www.irs.gov/newsroom/article/0,,id=117671,00.html> (TIN matching).

<sup>7</sup> IRS’s legacy e-file reject codes are in *Electronic Return File Specifications and Record Layouts for Individual Income Tax Returns, Tax Year 2011*, Pub. 1346 (Rev. 10-2011), <http://www.irs.gov/pub/irs-pdf/p1346.pdf>; under Modernized e-File, an even larger number of business rules can prevent filing.

<sup>8</sup> Information provided by SSA officials, Dec. 7, 2011.

<sup>9</sup> During Fiscal Year 2010, the IRS received more than 2.6 billion third-party information returns. IRS sent 8.4 million notices to taxpayers for almost 10.6 million math errors. *IRS 2010 Data Book* (Pub. 55B, (Rev. 3-2011)), p. 35, <http://www.irs.gov/pub/irs-soi/10databk.pdf>. While the Data Book references 2.6 billion information returns, the IRS PowerPoint at the Dec. 8 hearing references 1.8 billion (slide 4). The 1% and 3% are also from IRS PowerPoint, “Real Time Tax System Initiative,” presented at the public meeting, Dec. 8, 2011,” slides 5, 8 (based on 2009 tax data).

- **Workload Compression.** Frontloading may create risks of workload compression from mid-January through early February, the early filing peak. The start of the tax season can be particularly fraught with technical glitches. Plus late enactment of tax legislation may require a last-minute scramble by the IRS and software developers to adapt their systems, as this tax season’s filing delays illustrate.<sup>10</sup> At the same time, paid and volunteer tax preparers and the IRS are busy with training, opening offices, staffing call centers, etc. Meanwhile, SSA is dealing with millions of W2s submitted on paper by small businesses and processing backlogs caused by e-filed W2s.<sup>11</sup> A successful program will need to overcome this concern to avoid a line of refund-dependent taxpayers awaiting a green light to file. Otherwise, preventing e-filing in case of discrepancies may cause a traffic jam of taxpayers communicating with their employers, other payers, and the IRS—with bunched volume overloading IRS call centers, corporate HR departments, financial institutions, and return preparers. A significant shift of staff resources to pre-file workouts may be needed.
- **Security Risks.** A real-time system can reduce identity-theft-related refund fraud. But there may be risks. Today, tax preparers and tax software customers can download information reports from various issuers. If the proposed system aggregates the data and makes it available for retrieval from an IRS centralized data hub, it may increase the risk of penetration and fraud as compared to accessing diverse data sources. Since identity theft and data security have been identified as IRS priorities needing continuing attention, effective countermeasures will need to be developed.<sup>12</sup>

<sup>10</sup> Filing certain returns impacted by tax credits or deductions that expired at the end of 2009 and were renewed by the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 had to be delayed until Feb. 14, 2011 because of late enactment of legislation (Dec. 17) and the need for IRS reprogramming. See “IRS to Start Processing Delayed Returns on Feb. 14; Most People Unaffected and Can File Now,” IR-2011-7, Jan. 20, 2011, at <http://www.irs.gov/newsroom/article/0,,id=234736,00.html>; and “Forms Affected by the Extender Provisions,” <http://www.irs.gov/newsroom/article/0,,id=232773,00.html>.

<sup>11</sup> A 2009 news report highlighted SSA’s challenges: “The [SSA] is revamping its automated wage reporting program to improve performance in processing reports and to prevent backlogs in its system, Tony Tullo, director of federal compliance at Automatic Data Processing Inc., said ... April 30. SSA processes approximately 250 million W2s each year, and its current 20-year-old infrastructure has been taxed severely, particularly due to the increase in W2s being filed electronically.... SSA achieved its goal of receiving 80 percent of W2s electronically by the 2007 tax year... but it has experienced backlogs in its system as a result.... Nearly 1.2 million paper reports at the employer level in 2008 came in with one W2... About 2.2 million that came in were paper reports with two to 10 W2s, and almost 1 million had more than 10 W2s.... SSA would like to receive these reports on the electronic system, but if all these employers submitted them electronically under the current system, it would get clogged.... In turn, this would cause more delays when internally processing and then getting the data to the Internal Revenue Service.... ‘They need a more robust system,’ Tullo said.” Lauren Gardner, “SSA Now Working on Five-Year Overhaul of Automated Wage Reporting, Speaker Says,” 82 *BNA Daily Tax Report*, May 2, 2009, G-1, [http://news.bna.com/drln/DRLNWB/split\\_display.adp?fedfid=12356132&vname=dernotallissues&fn=12356132&jd=12356132](http://news.bna.com/drln/DRLNWB/split_display.adp?fedfid=12356132&vname=dernotallissues&fn=12356132&jd=12356132). SSA is improving its systems with a goal of processing 100 million W2s a week by Tax Year 2015.

<sup>12</sup> See, e.g., the Treasury Inspector General’s report that, “computer security remains a material weakness, and the IRS needs to continue its emphasis and attention on becoming a security-conscious organization.” TIGTA, *Annual Assessment of The Internal Revenue Service Information Technology Program*, 2011-20-106, Sept. 29, 2011, <http://www.treasury.gov/tigta/auditreports/2011reports/201120106fr.pdf> “A number of serious control weaknesses in IRS’ electronic filing systems placed personal taxpayer data in IRS’ electronic filing systems at significant risk of

- **State Coordination.** A real-time system would also affect state tax returns. Careful consultation with state tax administrators may help to harmonize some of the divergent rules affecting state filing.<sup>13</sup>
- **Underreporting Risks.** By calling attention to income a taxpayer may have otherwise missed or understated, a real-time system may increase tax revenue. Alternatively, however, it may also decrease revenue: A taxpayer who knows his income is higher than that shown in IRS records may be tempted, or emboldened, not to report what the IRS admits it does not know about already. One study using data from the IRS's National Research Program found that the amount of income at risk of this kind of underreporting was nearly 7 times more than the amount of underreporting prevented.<sup>14</sup> Although a pre-filing information match is not a "free pass" guarantee and while subsequent checks may still trigger IRS underreporter notices, the risks of revenue loss will need to be carefully evaluated.
- **The Private Sector's Role.** Tax preparers and software firms can play an expanded role. About 90 million taxpayers at 200,000 participating companies can already download data directly into their tax returns, file sooner, and get refunds up to 3 weeks faster using data retrieval services. Building out this capacity and broadening the number of users would permit faster access to information sent by payers, even without the advantage of matching the final records used by the IRS.<sup>15</sup>
- **Clarity of Intention.** The Commissioner and his staff have clarified that the real-time tax system is distinct from proposals for "return-free" filing or IRS-created "simple returns." Some parts of the tax preparation industry are nonetheless concerned that

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unauthorized disclosure, use, and modification during last year's tax filing season." GAO, *Information Security: IRS Electronic Filing Systems*, Feb. 2001, GAO-01-306, <http://www.gao.gov/new.items/d01306.pdf>. GAO reports 248,000 identity theft-related fraud incidents on tax returns reached last year, about five times more than in 2008.

<sup>13</sup> Different state rules are reviewed in Ernst & Young, *Business Processes and Considerations in Meeting Employee Wage Reporting Deadlines*, Prepared for the National Payroll Reporting Consortium, Inc. (2011), [http://nprc-inc.org/d\\_index/EY\\_NPRC\\_wage\\_reporting\\_processes\\_challenges-recommendations11Sept09.pdf](http://nprc-inc.org/d_index/EY_NPRC_wage_reporting_processes_challenges-recommendations11Sept09.pdf).

<sup>14</sup> The study looked at income types subject to at least some third-party information reporting: wages, salaries, tips, taxable interest, dividends, alimony, capital gains distributions, taxable IRAs, pensions and annuities, and unemployment compensation. It found, based on a sub-sample of returns from TY2001 that might have been eligible for simplified filing, that: (1) taxpayers reported a total of \$551 billion of these types of income; (2) underreporting of \$5 billion would have been prevented by up-front use of third-party information; yet (3) that same information would have shown a total of only \$517 billion of the \$551 billion that taxpayers reported under the current system, leaving \$34 billion of income (6.1%) that would have been at risk of not being reported under a pre-filled return system. Alan Plumley, "Potential Risks of the 'Ready Return' Concept," PowerPoint delivered at IRS Research Conference, June 11, 2008.

<sup>15</sup> Tax Act, Intuit's TurboTax and H&R Block are among the firms with both W2 and 1099 import capabilities. See H&R Block's *W2 Early Access* program at [https://www.hrblock.com/taxes/doing\\_my\\_taxes/w2/index.html](https://www.hrblock.com/taxes/doing_my_taxes/w2/index.html), and TurboTax, "Importing Your W2, 1099, and 1098 Forms," <http://turbotax.intuit.com/support/iq/Import/Importing-Your-W2--1099--and-1098-Forms/GEN12071.html>.

the same functionality is a prerequisite for both approaches and may be “stage one” of the move to such a system or to free online filing via the IRS Website. Whether or not these concerns are realistic or fair, the IRS may need to convey added reassurance to keep the issues separate and to encourage full support from tax practitioners and industry groups.<sup>16</sup>

- **Net Benefit.** The success of any new system will depend on the IRS’s ability to show a net benefit to taxpayers, not just a shifting of burdens away from the IRS. The benefits are unlikely to be persuasive if costs include a later start in the filing season, a delay in the issuance of refunds, or a choke point as rejects need resolution just as systems are at peak load. Unintended consequences will need to be considered. If refunds are delayed, for example, will taxpayers reduce withholding or have less incentive to file a return? And what steps can be taken to ensure that the costs of modernized real-time compliance will not adversely affect low-income taxpayers who are disproportionately early-season filers and highly dependent on refunds? These issues need attention to ensure that any program is, and is perceived as, a “win-win-win” for taxpayers, the IRS, information providers, and tax practitioners.

### An Expanded Vision

An expanded real-time tax system could also leverage newly registered and tested professional tax return preparers and their networks of offices across the U.S. to enhance compliance. Assuming the timing, technology, and workload concerns discussed above can be overcome, a tax administrator’s crystal ball might one day forecast these added elements:

- **More IRS Data Sharing.** Selectively reopening IRS information to taxpayers by easing retrieval of prior-year IRS tax data; providing real-time notice of IRS or FMS debts and refund offsets so that they can be paid or the information corrected promptly (as the “Debt Indicator” once allowed); and considering a “Revenue Protection Indicator”

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<sup>16</sup> In both his CERCA and AICPA speeches, the Commissioner said, “Now, I’ve been asked a lot whether this vision is one of the IRS pre-filing tax returns and sending them out. That’s not what this project is about. This is about making fundamental improvements to the current system where taxpayers or their tax return preparers are responsible for completing a return and submitting it to the IRS.” In answers to questions following a Nov. 14 speech at Harvard’s Kennedy School, the Commissioner was more positive about a transactional IRS website where taxpayers can file returns directly with the IRS: “... Shulman said the IRS had underinvested in its website for a long time but that it was ‘catching up now with where it should be.’ The next phase to improve the website is to make it more transactional with the goal of enabling taxpayers able to file their returns through the site, he said.” Eric Kroh, “Shulman Opposes Flat Tax Proposals From GOP Candidates,” *Tax Notes*, Nov. 21, 2011, p. 947.

The issues are sensitive. The Free File Alliance was developed as a public-private partnership to forestall IRS competition with tax preparers and tax software firms; 70% of taxpayers are now eligible for free federal online return filing (2.9 million used the program in FY2010); and several tax firms also offer free online and in-office filing as do IRS-supported volunteer sites. The IRS’s Electronic Tax Administration Advisory Committee recommended that consideration of “simple return” or “return-free” tax systems be deferred. *Annual Report To Congress* (Pub. 1345, Rev. 6-2011), June 2011, pp. 35-44, <http://www.irs.gov/pub/irs-pdf/p3415.pdf>. FY2012 budget constraints may also affect planning.

that, like information matching, will alert taxpayers to the need to file an accurate return lest it predictably be held for audit or correction.<sup>17</sup>

- **Tax Credit Compliance.** Enabling a tax preparer to act as the IRS's agent in reviewing documents to validate residency or other claims as part of EITC eligibility. This would go beyond simply filing a form 8867 checklist and hopefully improve on the IRS's own 2004-5 EITC pre-certification pilot.<sup>18</sup> Approved tax return preparers could also validate information to support other tax credit claims, which have raised compliance issues, like the adoption credit or a first-time homebuyers credit.

Just as many states delegate auto emissions testing to neighborhood service stations, the IRS could enlist a certified subset of registered preparers to act on its behalf in performing limited administrative tasks. Such a public-private model, like the Free File Alliance, could be especially attractive in an era of budget constraints.

- **Instant Settlement.** Allowing a taxpayer not just to retrieve data but also to settle his IRS account in his tax preparer's office and walk out with his IRS refund on a check, stored-value card or mobile device (like a "smart phone").

Consideration should also be given to a "trusted taxpayer program" in which those who have a solid track record of compliance and relatively stable, simple returns can get the equivalent of an EZ-Pass to speed through the system, much as certain pre-screened passengers can expedite airport security if they are registered as trusted travelers. This would enable the IRS to focus resources on higher risks.<sup>19</sup>

- **Benefits Screening and Enrollment.** Permitting a tax preparer to use client income and family data to screen eligibility for underutilized non-tax government benefits like food stamps (SNAP) or state children's health insurance (SCHIP). While about

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<sup>17</sup> The National Taxpayer Advocate suggested a revenue protection indicator pilot in her *2007 Objectives Report to Congress*, June 30, 2006, vol. II, p. 12, [http://www.irs.gov/pub/irs-utl/2007\\_objectives\\_report\\_vol\\_ii\\_ral\\_final.pdf](http://www.irs.gov/pub/irs-utl/2007_objectives_report_vol_ii_ral_final.pdf).

<sup>18</sup> IRS, *IRS Earned Income Tax Credit (EITC) Initiative: Report on Fiscal Year 2005 Tests* (January 2007), [http://www.irs.gov/pub/irs-utl/irs\\_earned\\_income\\_tax\\_credit\\_eitc\\_initiative\\_report\\_on\\_fiscal\\_year\\_2005\\_tests.pdf](http://www.irs.gov/pub/irs-utl/irs_earned_income_tax_credit_eitc_initiative_report_on_fiscal_year_2005_tests.pdf). The enhanced EITC due diligence would have to be designed as more taxpayer-friendly than the earlier IRS pilot. For views critical of a current, milder IRS proposal, 76 Fed. Reg. 62,689 (2011), to require tax preparers to file copies of their EITC due diligence checklist and retain copies of a claimant's documents, see ABA Section Of Taxation, "Comments on Reg-140280-09, Proposed Regulation Changing Tax Preparer Due Diligence Standards Relating to the Earned Income Tax Credit," Dec. 6, 2011, in *BNA Daily Tax Report*, Dec. 7, 2011 (the proposed rule is positive if it causes greater due diligence on the part of preparers but unintended consequences may include increased costs for some EITC recipients, a disproportionate burden on single-office return preparers, the risk that some unethical preparers will go underground and not sign returns, overcautious preparers not submitting valid EITC claims for fear of incurring penalties, or preparers requiring excessive documentation and deterring EITC claims). IRS estimates a 23%-28% overpayment rate for the EIC for FY2009. Treasury Inspector General for Tax Administration, 2011-40-023, *Reduction Targets and Strategies Have Not Been Established to Reduce the Billions of Dollars in Improper Earned Income Tax Credit Payments Each Year* (Feb. 7, 2011), pp. 21-31, <http://www.treasury.gov/tigta/auditreports/2011reports/201140023fr.pdf>.

<sup>19</sup> See, e.g., the Transportation Security Administration's "Pre✓" and U.S. Customs and Board Protection's "Global Entry" trusted traveler programs. TSA, press release, "Pilot Starts Today at Select Airports to Further Enhance Security, Oct. 4, 2011, <http://www.tsa.gov/press/releases/2011/1004.shtm>. The USCBP program allows expedited clearance for pre-approved, low-risk international travelers upon arrival in the U.S. See <http://www.globalentry.gov/>.

80% of taxpayers eligible for the EITC receive it, only about half of those eligible for food stamps and two-thirds of those eligible for children's health insurance receive those benefits. The tax preparer could use software to determine eligibility and to electronically transmit applications to the state—or, with authorization, actually enroll a taxpayer in the program on the spot.<sup>20</sup>

- **Banking, Savings and Financial Education.** Encouraging taxpayers to save. IRS tools facilitate financial security. For example, tax refunds now averaging \$3,000 can be split among different bank accounts; or used to buy U.S. savings bonds; or to open an IRA until April 15 eligible for a deduction and/or a Saver's Credit on the tax return being prepared.

An annual financial checkup is a teachable moment. Tax return preparers can help educate and empower their clients and use tax time to build assets, reinforcing national policies that incentivize savings for education, healthcare, home-ownership, and retirement. It can also be an opportunity to connect unbanked low-income consumers to stored-value cards or mobile alternatives that save money by lowering the cost of everyday financial transactions.<sup>21</sup>

## Conclusion

The attractions of a real-time, high-security, upfront-validation system are undeniable. Success will depend not only on overcoming technical obstacles and providing sufficient staff resources to resolve mismatches promptly, but also on ensuring broad support from stakeholders and maintaining a principled approach that appropriately defines the roles of government and the private sector. Which is why it's so important, as the Commissioner is doing, to surface the issues that need to be addressed and weigh cost-benefit tradeoffs. Along the way perhaps we can broaden the vision to include other elements that will improve taxpayers' lives. As Justice Brandeis observed, "If we would guide by the light of reason, we must let our minds be bold."<sup>22</sup>

<sup>20</sup> For example, since 1999 H&R Block has provided potentially eligible families with information about SCHIP, Medicaid, and other benefits. Starting in 2007, Block partnered with the Kansas Department of Social and Rehabilitation Services in transmitting applications for food stamps. Block also worked with researchers to test the college enrollment effects of using tax data in preparing Free Applications for Federal Student Aid. See Eric P. Bettinger, Bridget Terry Long, Philip Oreopoulos, and Lisa Sanbonmatsu, "The Role of Simplification and Information in College Decisions: Results from the H&R Block FAFSA Experiment," National Bureau of Economic Research Working Paper No. 15361, September 2009, <http://www.nber.org/papers/w15361>.

<sup>21</sup> In 2010, wireless penetration reached 96% of the population and 89% of handsets had Internet browsing capability. Kate Marshall Dole, Bart Narter, and Rob Levy, *Reaching Underbanked Consumers Through Mobile Services*, Center for Financial Services Innovation (2011), <http://cfsinnovation.com/content/reaching-underbanked-consumers-through-mobile-services>. In 2011, the Treasury Department tested delivery of tax refunds on stored-value cards. Press Release, "Treasury Launches Pilot Program of Prepaid Debit and Payroll Cards for Fast, Safe and Convenient Tax Refunds," Jan. 13, 2011, <http://www.treasury.gov/press-center/press-releases/Pages/tg1021.aspx>. Expanding such innovations will require respecting or negotiating the tax industry's competitive concerns and determining the appropriate role of government since such cards are already commercially available. See Joseph E. Stiglitz, Peter R. Orszag, and Jonathan M. Orszag, *The Role of Government in a Digital Age*, Computer & Communications Industry Association, Oct. 2000, [http://archive.epinet.org/real\\_media/010111/materials/stiglitz.pdf](http://archive.epinet.org/real_media/010111/materials/stiglitz.pdf).

<sup>22</sup> Dissent, *New State Ice Co. v. Liebmann*, 285 U.S. 262 (1932).