

**Testimony of  
Bernard McKay, Chairman  
Council for Electronic Revenue Communication Advancement  
(CERCA)**

**Before the  
IRS Oversight Board  
February 1, 2005**

Good afternoon. My name is Bernie McKay and I appear today as Chairman of CERCA, the Council for Electronic Revenue Communication Advancement. I am Vice President of Corporate Affairs at Intuit.

CERCA is a not-for-profit trade association founded in 1994. It represents a broad cross section of the e-filing, tax software preparation, electronic tax administration and IRS Modernization communities.

For over a decade, CERCA has worked closely with the IRS to promote the growth of electronic filing.

In this brief statement I would like to touch on a few issues that are relevant to your inquiry today, and I would be happy to expand on any topic during the question and answer portion of this panel session.

There are great many programs that are streamlining tax administration, and CERCA companies are involved in many of them. I realize that the range of issues covered by the

description of this panel includes topics that aren't addressed by our members, but many items are appropriate for me to mention.

The first point that we would emphasize is that in streamlining tax administration to decrease taxpayer burden, the most successful approach, as we have all seen, is to maximize the partnership between the IRS and industry. This partnership has brought tremendous benefits to the American taxpayer through innovation. Partnership is really the name of the game.

Innovation serves the taxpayer, as we noted last year. As an example, for the third season, the Free File Alliance is providing service to taxpayers. CERCA played a central role in the creation of the Alliance, a groundbreaking public-private partnership and negotiated public rulemaking through which the tax preparation and e-filing industry provide free services to millions of Americans, in recognition of which the government has committed to not provide electronic tax services that compete with or replace such private services. Last year the Free File Alliance donated a total of 3.5 million electronic tax returns, up 26% from the total in its inaugural season, and we're confident that this year will be highly successful as well. There are important governance issues which will be addressed in the months ahead and which require resolution by the IRS and the Alliance. These issues concern the going forward scope and mission of the program, particularly as to whether it will be a public service initiative similar to the VITA and Walk-In assistance programs, or whether it will be a broad marketing platform for universal service. In a few months, the renegotiation of the program agreement for Free File between industry and government will take place, and many significant substantive policy issues must be addressed at that time.

Last year in our testimony, we also prominently noted, however, that problems plagued the e-filing launch. While the season ended up with record statistics, problems did mar the early season.

Given that CERCA made that point last year, it is important for us to report to the Oversight Board that, to date, the season has been extremely smooth. IRS and industry have worked very well together in preparing for the season, and the performance has been outstanding. We would particularly like to credit IRS officials, notably new ETA Director Bert DuMars and his top staff, for conducting a very valuable full-day briefing session in early September that CERCA had requested. The timing, as preparations were being finalized, was excellent, and we expect that this meeting will become a permanent part of the IRS/industry pre-season schedule.

Moving to Modernization, we recognize that the IRS Oversight Board has closely monitored the massive Modernization program, and expressed concern and disappointment on occasion as problems arose.

As you know, however, the IRS Business Systems Modernization Program has realized the most successful performance year in its history. During the past year alone, four major projects have been deployed and are already demonstrating effectiveness and efficiency, resulting in improved services not only to America's taxpayers but also to the members of our organization. I would like to touch on three of the projects which impact our members in a positive way. To be sure, you are familiar with these, but they bear notice.

CADE: The first release of CADE (Customer Account Data Engine), the cornerstone of the Modernization program, went into production in July 2004, processing a select group of 1040EZ from the 2004 filing season, and is already issuing refunds faster than the legacy Master File. As the 2005 filing season begins, the processing of returns in CADE marks the first time in 40 years that American tax returns have been processed in a system other than the Master File. The IRS has projected that almost 2 million 1040EZ returns will be processed during 2005 using the new data engine.

e-services: A suite of web-based services that improve the way IRS works to streamline processes with tax preparation professionals. The products implemented so far have

proven to be a resounding success among those in the user community. More than 61,000 participants have registered on-line to use the various services and the number of Bulk and Interactive TIN Match requests is in the millions (Bulk: 22 million; Interactive: more than one million).

Modernized e-File: The award-winning Mod e-File provides electronic filing for the first time to large corporations and tax exempt organizations. By the end of 2004, nearly 52,000 returns in the 1120 family had been accepted, surpassing original projections by 217%, and more than 1,000 returns in the 990 family had been accepted, surpassing projections by 130%.

Despite the past year's achievements adequate funding to advance Modernization is crucial to the vitality of modernization. The recent decision by Congress to reduce the level of funding in fiscal year 2005 to \$205 million from \$387 million in 2004 is a concern to our membership. While CERCA understands the funding pressures of Congress, we would ask that the Board not only continue to support the Modernization program, but to also convey to Congress the benefit to American taxpayers that would result from a restoration of funding to pre-2005 levels to ensure that the momentum gained over the last year is not lost and to minimize any further delays in modernizing the IRS systems.

The next point we would make, is that innovative e-Payment programs have certainly lessened taxpayer burden, and these programs, beginning with EFTPS, should appropriately receive our full support. There are also very innovative new private sector offerings that will benefit taxpayers as they seek to do business with the IRS, and programs of this kind should be included in consideration of important steps to benefit taxpayers.

Finally, we would hope to suggest to the Oversight Board that in this era of Tax Reform, every proposal to "streamline the process" may not necessarily make sense, and various proposals should be carefully examined before any support is given. We would include

the so-called “Return Free” concept in this category. Indeed, preservation of our voluntary compliance tax system, a quintessentially American approach to taxation that is citizen-centric, should continue to be an essential principle in any tax reform and simplification strategy. Also, some might suggest that certain approaches being used overseas have been and should be implemented here. We would urge the Oversight Board to scrutinize whether are not reports of “success” are actually true, and whether or not certain approaches really would benefit American taxpayers.

Thank you, and we look forward to working with the Board in any way we can.