

DEPARTMENT OF TAXATION

2008 Fiscal Impact Statement

1. **Patron** Robert D. Hull

2. **Bill Number** HB 678

3. **Committee** Passed House and Senate

House of Origin:

 Introduced

 Substitute

 Engrossed

4. **Title** Income Tax: Filing of Individual Income Tax Returns

Second House:

 In Committee

 Substitute

 X **Enrolled**

5. **Summary/Purpose:**

This bill would require large income tax return preparers to file returns electronically. Currently, large income tax preparers have the option of filing returns electronically or using 2D barcoded paper returns.

This bill would be effective for taxable years beginning on and after January 1, 2008.

This is a Department of Taxation bill.

6. **Fiscal Impact Estimates are:** Preliminary. (See Line 8.)

6a. **Expenditure Impact:**

| <i>Fiscal Year</i> | <i>Dollars</i> | <i>Fund</i> |
|---------------------------|-----------------------|--------------------|
| 2007-08 | \$0 | GF |
| 2008-09 | (\$118,500) | GF |
| 2009-10 | (\$158,000) | GF |
| 2010-11 | (\$158,000) | GF |
| 2011-12 | (\$158,000) | GF |
| 2012-13 | (\$158,000) | GF |
| 2013-14 | (\$158,000) | GF |

7. **Budget amendment necessary:** Yes.

ITEM(S): 270, Department of Taxation

8. **Fiscal implications:**

Administrative Costs

The average processing cost to process a paper return is \$0.70 per return versus \$0.18 per return for returns filed electronically. If the 2D barcode returns were instead filed electronically, this would result in administrative cost savings of \$118,500 for FY 09 and \$158,000 for each fiscal year thereafter.

Revenue Impact

This bill would have no revenue impact.

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: No.

11. Other comments:

Background

In 2004, legislation was approved that requires individual income tax returns prepared by certain tax preparers to be submitted to TAX using either an electronic medium or using software that generates a 2D barcode in accordance with Virginia 2D barcode specifications. The requirement applies to tax preparers who prepared 200 or more individual income tax returns for the taxable year beginning on or after January 1, 2003, or 100 or more individual income tax returns for taxable years beginning on or after January 1, 2004. Once a tax preparer meets the return threshold for a given taxable year, he must file Virginia individual income tax returns using electronic means or software that produces a 2D barcode for every taxable year thereafter.

A 2D barcode return is a paper return and must be handled just like any other paper return, with the exception that the 2D barcode data is read by TAX's imaging equipment, eliminating the need to key the return by an operator. While 2D barcode returns are an efficient means for capturing the return data, the return itself must still be picked up from the post office, transported, opened, sorted, screened, batched, scanned, stored, and eventually destroyed.

Currently, of the 1.27 million returns that are filed annually and that fall under the mandate, 300,000 are filed as 2D barcode paper returns.

Proposal

This bill would eliminate the option for large income tax return preparers to file paper 2D barcode returns, instead of filing electronically. The Tax Commissioner would still have the authority to waive this requirement, however, if it would cause undue hardship. In addition, taxpayers would be able to opt out of electronic filing; and any forms that could not be accepted through electronic means could still be filed using the 2D barcodes.

This bill would be effective for taxable years beginning on and after January 1, 2008.

cc : Secretary of Finance

Date: 2/26/2008 AMS
HB678FER161