

# DEPARTMENT OF TAXATION

## 2023 Fiscal Impact Statement

1. **Patron** Kathy K.L. Tran

3. **Committee** House Finance

4. **Title** Individual Income Tax; Replacing Virginia  
Free File Program with Free Direct Filing  
Option

2. **Bill Number** HB 2245

**House of Origin:**

X **Introduced**

       **Substitute**

       **Engrossed**

**Second House:**

       **In Committee**

       **Substitute**

       **Enrolled**

### 5. **Summary/Purpose:**

This bill would phase out the Virginia Free File Program and terminate the related agreement with the Consortium of Virginia. This bill would then require the Department of Taxation ("the Department") to prepare to offer electronic filing services directly to taxpayers without monetary charge. Beginning with returns filed for Taxable Year 2024, the Department would be required to either:

- Reinstate the Virginia iFile program; or
- Develop and offer a substantially similar program that offers electronic filing services directly to Virginia individual taxpayers without monetary charge.

The bill would also remove obsolete language regarding fillable forms.

If enacted during the regular session of the 2023 General Assembly, this bill would become effective July 1, 2023.

### 6. **Budget amendment necessary:** Yes.

Item: 274 and 276, Department of Taxation

### 7. **Fiscal Impact:** Preliminary. (See Line 8.)

#### 7a. **Expenditure Impact:**

<i><b>Fiscal Year</b></i>	<i><b>Dollars</b></i>	<i><b>Positions</b></i>	<i><b>Fund</b></i>
2023-24	(\$1,436,800)	0	GF
2024-25	(\$1,339,150)	0	GF

### 8. **Fiscal implications:**

#### Administrative Costs

This bill would result in administrative costs to the Department of Taxation ("the Department") of \$1,436,800 in Fiscal Year 2024 and \$1,339,150 in Fiscal Year 2025. The costs associated with this bill are related to technology updates and improvements in

connection with developing an interview-based individual income tax electronic filing program. Because of the development effort involved, the Department would not be able to offer such a program until the Taxable Year 2024 filing season in January 2025.

#### Revenue Impact

This bill would have no impact on General Fund revenues.

#### **9. Specific agency or political subdivisions affected:**

Department of Taxation

#### **10. Technical amendment necessary: No.**

#### **11. Other comments:**

##### Virginia iFile Program

Prior to 2011, the Department of Taxation (“the Department”) provided a free online filing and payment system called iFile. iFile was an interview-based application developed by the Department and was available to most Virginians, regardless of income. iFile was not available to some taxpayers that claimed certain credits, which excluded approximately 3 percent of Virginians from using iFile. Prior to its termination, approximately 300,000 Virginians filed electronically each year using iFile.

##### Virginia Free File Program

In 2010, the Virginia Free File program was established pursuant to 2010 House Bill 1349. Consistent with the legislative mandate, this program was based on the Federal Free File program, and as part of this new program, Virginia entered into an agreement with the Consortium for Virginia whereby the Consortium agreed to offer free electronic filing of individual income tax returns for 70 percent of Virginia taxpayers. As part of the agreement with the Consortium for Virginia, the Department was required to discontinue its competing interview-based iFile program for individual income taxpayers. Virginia’s iFile system is still in use for Virginia corporate income tax filers.

Under the Virginia Free File Program, electronic filing was primarily facilitated through the provision of interview-based tax preparation software from private vendors, which was provided for free for those whose income did not exceed certain thresholds. If the taxpayer’s income exceeded the income thresholds, the taxpayer would generally have to pay a fee to use the program and file with private interview-based tax preparation software.

In addition, the Virginia Free File Program allowed free electronic filing for all individuals, regardless of income, through Free Fillable Forms. Rather than being interview-based as Virginia’s iFile system was, Free Fillable Forms provided individual taxpayers with a comparable experience to paper forms online with a computer. The free web-based application was developed by a private vendor and allowed taxpayers to choose the Virginia income tax forms and schedules they needed, fill in relevant information, and electronically file their return. During 2021, the software vendor offering the Free Fillable Form announced

that it would no longer support Free Fillable Form applications including Virginia's. The Department reached out to other software vendors to invite them to support Free Fillable Forms, but none of the vendors were willing to do so. As a result, Free Fillable Forms is no longer available as a free electronic filing option for Virginia individual income taxpayers.

### Proposed Legislation

This bill would phase out the Virginia Free File Program and terminate the related agreement with the Consortium of Virginia. This bill would then require the Department of Taxation ("the Department") to prepare to offer electronic filing services directly to taxpayers without monetary charge. Beginning with returns filed for Taxable Year 2024, the Department would be required to either:

- Reinstatement of the Virginia iFile program; or
- Develop and offer a substantially similar program that offers electronic filing services directly to Virginia individual taxpayers without monetary charge.

The bill would also remove obsolete language regarding fillable forms.

If enacted during the regular session of the 2023 General Assembly, this bill would become effective July 1, 2023.

cc : Secretary of Finance

Date: 1/29/2023 RWC  
HB2245F161