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April 29, 2005

The President's Advisory Panel on Federal Tax Reform  
1440 New York Avenue, N.W.  
Suite 2100  
Washington, DC 20220

To The Hon. Connie Mack and The Hon. John Breaux:

We heartily endorse the President's goal of a simplified tax system, and we recognize that change to the status quo has the potential to create a wide range of unintended consequences. This letter summarizes the findings of our research as it applies to the task before you.<sup>1</sup>

Foundation scholars have written extensively on the taxation of electronic commerce, e-government programs, and in particular, their application to tax preparation services.<sup>2</sup> These studies highlight significant risks to taxpayers and to the integrity of government institutions from the public provision of tax preparation services. The risks manifest themselves in areas as diverse as privacy, data and personal security, and the creation of irresolvable conflicts-of-interest.

It is our view that electronic government initiatives are a qualified good. As electronic government initiatives penetrate the public square, they increasingly become government initiatives, and that would be the result of government-run tax-preparation services. A prime example of that dangerous possibility is currently being piloted in California. Over time, new techniques and technologies become standard procedure.

We believe a system with voluntary preparation and filing is important for the health of our democracy. It is organized around individual taxpayers and not government agencies. It involves citizens in the tax system, raising their awareness and providing a critical check on government. It protects a fundamental liberty interest that

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<sup>1</sup> The Progress & Freedom Foundation is a non-profit, 501(c)3 educational and research organization founded in 1993, and studies the impact of new technologies on many policies including electronic government, intellectual property, communications and competition policy.

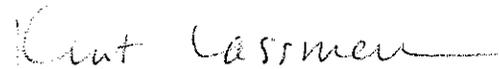
<sup>2</sup> See for example, James W. Harper and Thomas M. Lenard, Online Tax Preparation: Beyond the Bounds of E-Government, Progress on Point 9.13, The Progress & Freedom Foundation, April 2002.

citizens report their private financial information to the government voluntarily; instead of being surveilled by the government automatically..

The provision of tax preparation services by government agencies produces demonstrably inferior goods to private sector provision, alienates taxpayers from their own tax system, and brings increased risk to their privacy and security.

As a result of these and related findings, we urge your report to the President to carefully consider any electronic government initiatives and their affect on citizen safeguards. Government provided "ready return" and similar programs should be rejected.

Respectfully,

A handwritten signature in cursive script that reads "Kent Lassman". The signature is written in black ink and is positioned above the typed name.

Kent Lassman  
Research Fellow  
The Progress & Freedom Foundation