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Associated Press

Suit Goes After Tax E-Filing Fees

By MARYCLAIRE DALE 11.15.07, 7:06 PM ET

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PHILADELPHIA - A Philadelphia woman is seeking class action status for a lawsuit accusing H&R Block, Intuit and other tax software makers of overcharging consumers who pay to file their taxes online.

The class, if approved, could number tens of millions of people, according to lawyers who filed the federal lawsuit this week in Philadelphia.

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Instead of developing its own e-filing software, the Internal Revenue Service has forged an agreement with a consortium of about 20 companies to handle such returns.

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Under the agreement, the software makers provide free e-filing for low- and moderate-income taxpayers. But those who earned more than the \$52,000 income threshold in 2007 had to pay to e-file, a process that typically offers the benefit of a faster refund.

The suit is being filed on behalf of those who had to pay.

"It's a tax on tax-filing," said lawyer Thomas More Marrone, who filed the suit Monday on behalf of plaintiff Stacie

Byers. "If you make more than \$52,000 a year, you are not permitted to file a tax return electronically with the IRS unless you go through one of these cartel companies, which charges you a fee for doing so," he said.

Byers bought an H&R Block program to e-file her federal taxes, the suit states. While the suit did not specify what she paid, most programs cost \$15 to \$20 and up.

H&R Block Inc., the nation's leading tax return preparer, is headquartered in Kansas City, Mo. It operates through more than 12,000 offices and sells tax-preparation software. A major competitor is Intuit Inc. of Mountain View, Calif., which produces the TurboTax software packages.

Marrone alleges that U.S. taxpayers have spent billions on online filing in violation of the agreement between the IRS and the consortium, the Free File Alliance, that calls for the software makers to establish "fair and uniform fees for e-filing."

Consortium members say they have saved the IRS the huge cost of handling the returns.

"If the IRS were to provide the product that we're providing, it would cost the IRS a tremendous amount of money," said alliance executive director Tim Hugo, who said the cost to the IRS might reach \$500 million.

Under the agreement, the consortium must offer free filing to 70 percent of taxpayers, or about 95 million people. However, only 5.1 million people took part in the free filing program in 2006, according to the alliance Web site.

Consumer advocates say that low- and moderate-income taxpayers are less likely to have computers or Internet access.

"For low-income consumers, a lot of them, they didn't have the computers to take advantage of it, so it doesn't help folks who have to go to the (tax-preparation) storefronts anyway," said staff attorney Chi Chi Wu of the National Consumer Law Center in Boston.

According to the IRS Web site, more than 54 percent of all taxpayers filed returns electronically in 2006.

"I think the IRS needs to expand their promotion of this (free) product, and we'll work with them on it," Hugo said. "We hope more people use it."

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