Maker of Tax Software Opposes State Filing Help

The government's offer to fill out forms is a hit with poor and elderly, but not with Intuit.

By Evan Halper, Times Staff Writer
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SACRAMENTO — When the state offered to take some of the agony out of tax season for thousands of low-income and elderly Californians by filling out their returns for them, the reaction was overwhelming.

Most of the taxpayers who voluntarily participated in a test run of the state’s ReadyReturn program said it alleviated anxiety, saved time and was something government ought to do routinely. More than 96% said they would participate again, according to a state survey.

Then a legislative committee tried to kill the program, leaving Stanford law professor Joe Bankman, who helped design it, bewildered. He had thought the logic of it was so obvious, and the enthusiasm from participants so great, that lawmakers would rush to embrace it.

"I can't believe how naive I was," said Bankman, a tax-law scholar with a tendency toward rumpled suits who has temporarily traded the ivory tower for the hallways of the Capitol. "It's unbelievable how little I knew about how things are really done."

Bankman had underestimated how much influence one Silicon Valley company could have on the lawmaking process.

Intuit, maker of the consumer tax software TurboTax, is fighting ReadyReturn. The Mountain View firm has spent about $500,000 on lobbying and campaign contributions since it was proposed two years ago.

Now the program is in legislative limbo. The test period ends next year, and a bill to keep it alive lacks support. Intuit hired a well connected lobbyist, a man whose stretch limousine is regularly parked across the street from the Capitol. So Bankman hired a lobbyist too, using $30,000 his family had set aside to remodel the kitchen of their Palo Alto home.

"It's a shame," he said. "But once I realized that you had to buy your way in to get access, then making the decision to spend the money was not difficult."

Intuit spokeswoman Julie Miller said in a written statement that ReadyReturn is a bad idea, and it is "a fundamental conflict of interest for the state's tax collector and enforcer to also become people's tax preparer."

"The debate over this issue is not — and should not be — about politics," she wrote. "It should be about what is the best public policy for every California taxpayer."

Lawmakers opposed to ReadyReturn say it confuses people, creates privacy concerns and could scare taxpayers away from legitimate deductions.

"The state's invitation to taxpayers to participate in it has, in some cases, created a lot of hysteria among seniors," said Assemblyman Rudy Bermudez (D-Norwalk), whose budget subcommittee has targeted ReadyReturn for elimination. He and two dozen other lawmakers sent a letter to state authorities opposing to the program.
Bermudez said complaints about ReadyReturn surfaced during regular "town hall" meetings with constituents, some of whom feared they couldn't take deductions. "They felt they had to just pay what the state said," regardless of whether legitimate credits were claimed, he said.

State tax officials say they heard no such complaints, that the objections they received were philosophical arguments against the government doing people's taxes. ReadyReturn has been offered mostly to those with uncomplicated taxes, and participants are free to abandon it and revert to their usual method of filing returns at any time, for any reason.

The officials said that they called Bermudez's office with offers to work with confused constituents but that he assemblyman did not return their calls. Bermudez said he has been too busy.

UC Berkeley political science professor Bruce Cain says he doubts that the substance of ReadyReturn is what really concerns lawmakers.

Intuit's lobbyist, a firm called Lang Hansen, also represents tobacco giant Philip Morris, pharmaceutical maker Eli Lilly, electricity producer Sempra Energy and other large donors to political campaigns. In an era of term limits, with lawmakers raising money almost constantly to prepare to run for the next office, many may hesitate to defy lobbyists who help determine where their clients' donations go.

"Lobbyists who have their finger on money have a lot more influence," said Cain. "Even if Intuit doesn't donate that much, they are using a lobbyist who has a lot of big clients. The sum total that those clients give is what opens doors."

Bankman's lobbyist is Alan Edelstein, whose firm also represents some large energy, communications and healthcare companies, as well as big-city government agencies. His $30,000 fee is chump change in lobbying circles; Edelstein has taken the professor on at a substantial discount.

"We are doing this because we like professor Bankman," said Edelstein. "We find the tax code, and trying to make things easier for the taxpayer, an interesting issue."

Bankman says Edelstein's job is not so much to argue the case for ReadyReturn — something he says he can do himself — as to land meetings.

"Some people would never meet with me before," Bankman said. "Once you get a lobbyist, the meeting problem clears up…. If the only arguments legislators hear are industry arguments, they will win the day."

Bankman's supporters include state Controller and Democratic gubernatorial candidate Steve Westly, Assembly Majority Leader Dario Frommer (D-Glendale) and two of Gov. Arnold Schwarzenegger's GOP budget directors.

Tom Campbell, a former budget director who served in Congress and the state Senate, said he has "never seen the public interest being overborne by private interest as clearly as it has been in this case."

Campbell, who as budget director sat on the state tax board that launched ReadyReturn, said the only argument opponents made to him that wasn't a red herring was that ReadyReturn threatened their business.

"The argument was never presented in terms of the public interest," he said. "It was stark. It was: 'We are doing it and we don't want the competition.' "

Industry officials endorse that position.

"A dynamic, innovative free market is in everybody's interest," said Ed Black, president and chief executive of the Computer and Communications Industry Assn. in Washington, D.C. "That kind of market is interfered with when … government enters as a competitive player. The government always has the advantage."

Intuit wants California to abandon ReadyReturn. As an alternative, the company would make TurboTax available free to low-income taxpayers through a program already in place with the federal government and 20 other states.

That effort came under fire last month, when a congressional report said taxpayers who used the service often got hit with unexpected fees for government forms, resetting of passwords and other services.

Under the experimental program, ReadyReturn will be offered only once more, to 50,000 Californians next year. Frommer is championing a bill (AB 2905) that would make the program permanent and expand it to 1 million people. He hopes that by the end of this year's legislative session, he'll have enough votes to pass it.
And UC Berkeley's Cain says not to count Bankman out: Not many government programs get rave reviews.

"The kind of lobbying that [Intuit is doing] here only works when there is no sentiment among the voters that lawmakers fear," he said. "This one has potential of irritating voters and causing a backlash."

If that happens, Cain said, Intuit could be "out of luck."