

## Multiple options available for tax-preparation services

March 5 2009, By Troy Wolverton

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It's that dreaded season -- tax time. But preparing your forms this year may not be as difficult and time-consuming as in past years. Makers of the most popular tax preparation software and online services claim they've made them easier to use and in some cases, less expensive than before.

Following the lead of the Web-based tax services, many desktop programs will now let you file your return electronically for free. And the biggest tax software companies -- Intuit and H&R Block -- have ramped up the amount of advice they include in the price of the software.

Such added features may appeal to consumers, especially given the tough economic times. But there's an even more compelling reason taxpayers should consider using the tax preparation software and online services, said Bill Doyle, who covers financial services and software for Forrester: The software can make a tough, time-consuming job easier.

"The software is awfully good," said Doyle. "It translates things for you in a way that most people can handle."

Taxpayers now have a variety of choices in doing their taxes on their computers. They can buy software in a store, download it from the Internet, fill out simple forms online or use a Web-based service that will walk them through their returns. Depending on the sophistication of the software - and, in some cases, taxpayers' income levels - the services and

software can range in price from free to more than \$100 for the top consumer-level products that also include state-tax preparation software.

In contrast, your local H&R Block office will charge at least \$80 to prepare even a basic return. And consumers can expect to pay much more than that if they have a complicated return or go to a private accountant.

Many taxpayers are already converts to tax preparation software and online services. Last year, some 27 million prepared an electronically filed tax returns using software on their home computers, according to the IRS. That was up 19 percent from the previous year.

So far this year, the number of boxes of TurboTax software that Intuit has sold or sessions of TurboTax online that the company has logged totals 9.9 million, up 6 percent from the same period last year.

Tax preparation software and services is dominated by three products: TurboTax, H&R Block's TaxCut and 2nd Story Software's TaxAct.com. All three offer programs that consumers can install on their computers and tax preparation services that they can access on the Web. And all three now offer a basic edition of their online services that allow taxpayers to prepare and file their federal taxes for free.

Consumers do have other choices, though. Some 20 companies, including the big three, participate in the Free File Alliance, which is sponsored by the IRS. Member companies offer relatively sophisticated online tax preparation services for free to taxpayers whose adjusted gross income is \$56,000 or less. About 70 percent of taxpayers nationwide fall into that category, according to the IRS.

Meanwhile, the alliance and the IRS are offering online tax forms that all taxpayers can complete and submit for free. The difference is that

they're simply forms; they don't come with advice or guidance on how to complete them.

Although tax preparation software has been around for years, there are some new bells and whistles this year. For instance, both Intuit and H&R Block have tried to make it easier -- and less costly -- for taxpayers to get help as they are preparing their returns.

On every page of both the TurboTax software and the online service, Intuit now links to the five most frequently asked questions about the information taxpayers have to provide for that page. The linked questions provide free answers from other TurboTax users and the company's own tax experts.

With the premium software and online versions of TaxCut, H&R Block offers consumers a free session with a tax adviser, who can answer questions about a particular page or section of the return.

To be sure, tax preparation software and services have limitations, and they aren't for everybody. The software typically can't help you with financial planning and may not be able to help out with complex tax issues, such as the alternative minimum tax, stock options transactions, real estate deals and foreclosures, noted Mark Schwanhausser, an analyst for Javelin Strategy and Research.

"If you have any kind of complexities, if you like to ask questions, if you have anything idiosyncratic, then I strongly suggest" going to an accountant, he said.

And there are important differences among the software and services, even within families of products. You typically can't import previous years' tax returns to the free, entry-level online tax services, for instance. State tax software generally costs extra, and sometimes companies

charge extra to electronically file state returns.

Companies typically charge substantial amounts for over-the-phone advice in filling out forms. Phone support from Intuit, for example, can cost \$29.95 per session. And while the online services are frequently cheaper than the software, you can use the software to prepare more than one return, making it less expensive for multiple returns.

Still, even analysts such as Schwanhausser see the value in the software and the services.

"The software being produced is pretty darn professional," he said. "I can't think anyone would do (this) on paper anymore."

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## MORE INFORMATION

- TurboTax, TaxCut and TaxAct each offer a basic Web-based tax service for free to all taxpayers. The services include federal e-filing at no extra charge, but don't include state tax software.
- Free File, sponsored in part by the IRS, is a consortium of 20 companies that offer sophisticated Web-based tax preparation for free, generally to consumers with adjusted gross income of less than \$56,000.

[www.irs.gov/app/freeFile](http://www.irs.gov/app/freeFile)

- The Free File Alliance is also providing to all taxpayers free forms that consumers can complete online.

[www.freefilefillableforms.com/FFA/Gateway.htm](http://www.freefilefillableforms.com/FFA/Gateway.htm)

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