

Costly Direct File Will Leave Americans Confused and Give Too Much Power to the IRS

Although millions of Americans already have access to — and use — free tax filing programs, the IRS is piloting its own platform, Direct File. The new program is only open to a small percentage of Americans and will lead to confusion about who is eligible while creating a **clear conflict of interest for the IRS**.

IRS Direct File is costly, unnecessary and duplicative.

Costly: Direct File would require hundreds of millions of dollars of taxpayer funds annually.

- The IRS estimates Direct File will cost **up to \$249 million annually**¹, and many state that costs will be even greater.
- The Treasury Inspector General for Tax Administration notes, “Direct File cost estimates [by IRS] could not be substantiated... The IRS’s estimate included costs associated with providing customer support, product development, i.e., labor costs, and technology, i.e., hosting fees, software licensing fees, etc. Yet when we asked the IRS for documentation supporting how it arrived at these various cost estimates, it could not provide us with any.”²
- Tony Scott, former CIO for President Obama, said: “**The estimated costs of this project are very likely grossly understated**, based on a sampling of other government software development projects.”³

Duplicative and Unnecessary: Tens of millions of taxpayers are already eligible to use free tax preparation through long-standing agreements with commercial tax providers.

- In 2023, the tax preparation industry completed **28.6 million free federal returns***, in addition to millions of free state returns.
 - » That’s **nearly \$900 million** in free service annually.
- Just **12% of taxpayers** would choose IRS Direct File option if no state return was included, as is the case for most Americans under Direct File, according to a study conducted by MITRE.⁴
- According to Tony Scott, “**a clear, demonstrable need for IRS Direct File appears to be missing**... Neither the IRS nor members of Congress who champion this IRS-sponsored approach have been able to characterize the benefits of their strategy in terms of time saved, costs avoided, increased customer satisfaction or any other commonly used metric of success/benefit.”⁵

1 <https://www.washingtonpost.com/business/2024/02/04/direct-file-irs-taxes/>

2 <https://www.tigta.gov/sites/default/files/reports/2023-10/2024408002fr.pdf>

3 <https://thehill.com/opinion/4253283-the-governments-free-tax-filing-software-is-virtually-guaranteed-to-fail/>

4 <https://www.mitre.org/sites/default/files/2023-05/PR-23-1221-MITRE-Taxpayer-Filing-Preference-Surveys.pdf>

5 <https://thehill.com/opinion/4253283-the-governments-free-tax-filing-software-is-virtually-guaranteed-to-fail/>

* This figure includes returns prepared through the IRS Free File Program and the preparer’s commercial websites.

Direct File will confuse and frustrate taxpayers.

Confusing: Taxpayers must get through seven screens before they even learn if they're eligible for Direct File.¹

- Even in the 12 states where taxpayers can use the program, many are ineligible because they are self-employed, gig workers or itemize deductions.²
- Anyone who purchased insurance from a health care marketplace or uses a health savings account is also ineligible.³

The vast majority
of Americans are
not eligible for
Direct File

Frustrating: The IRS is not equipped to provide the same level of customer service as private companies.

- Each year, private tax software companies invest hundreds of millions of dollars to simplify the taxpayer experience and to build upgrades, such as AI tools, that make filing easier and faster.
- Private companies also staff massive call centers with experts who quickly answer questions and provide support. In contrast, a 2022 GAO assessment found “**most phone calls [to the IRS] from taxpayers were unanswered.**”⁴
- In 2022, the GAO found that the IRS's workload led to a backlog of about 8 million returns from the prior year.

The IRS has a clear conflict-of-interest when it comes to determining how much taxpayers owe.

- Private tax software providers prioritize accuracy and minimizing tax liabilities for taxpayers. **The IRS has no incentive to provide a similar service.**
- The IRS prioritizes tax collection. With Direct File, the **IRS serves as tax preparer, tax auditor and tax enforcer**, leaving taxpayers in a vulnerable position.

1 <https://www.wsj.com/personal-finance/taxes/can-the-irss-new-free-tax-filing-tool-replace-turbotax-we-tried-it-out-77a6b243>

2 <https://www.washingtonpost.com/business/2024/02/04/direct-file-irs-taxes/>

3 <https://www.azcentral.com/story/money/business/consumers/2024/01/26/irs-rolls-out-new-easier-filing-option-to-arizona-taxpayers/72357766007/>

4 <https://www.gao.gov/products/gao-23-105880>

