

THE COALITION FOR FREE AND FAIR FILING

Dispelling American Coalition for Taxpayer Rights' Myths About IRS Direct File

On September 12, 2023, The American Coalition for Taxpayer Rights, sent a [letter](#) to Senator Warren and Representative Porter about statements made in support of the IRS Direct File pilot. Much of the letter's "facts" are based on speculation about how the tool will function and a severe misunderstanding of the nature of iterative pilot programs. The following document dispels several myths proposed in the letter with what is currently known about the Direct File Pilot.

| MYTH | FACT |
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| <p>The IRS Direct File tool will not support any state filing integration.</p> <p>"At this time, there is no indication that taxpayers will be able to prepare and file a state income tax return simultaneously with a federal return."</p> <p>"The IRS tool will be more complex, more time consuming, and more susceptible to errors due to reentry of data in a state return."</p> | <p>The IRS has explicitly indicated that state tax integration will be a component of the coming pilot.</p> <p>Commissioner Werfel's July letter to the Federation of Tax Administrators made clear that conversations with states are underway to support state filing as part of the Direct File experience, and that plans would be forthcoming about "state tax integration." The IRS's May report to Congress on Direct File also emphasized the agency's focus on state filing, writing plainly that "Taxpayers expect to be able to file federal, state, and local returns in one place."</p> <p>We expect additional details to be released in the fall, clarifying how state taxes will be integrated into Direct File.</p> |
| <p>Taxpayers won't know the scope of the tool, which could lead to incomplete or inaccurate reporting.</p> <p>"A lack of clarity over who may or may not be able to use Direct File will result in taxpayer confusion, and lead to incomplete or incorrect tax returns that could</p> | <p>The IRS will publicly announce the scope of the pilot ahead of the 2024 filing season, and will ensure that eligible taxpayers use it.</p> <p>Opponents of Direct File are trying to manufacture outrage out of a reasonable and prudent schedule of information releases. Most commercial tax prep software and other tax filing services update their services on a yearly basis and share those updates with taxpayers before using the tool. For example, even the Volunteer</p> |

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| <p>shortchange taxpayers on their refunds or open them up to an increased risk of audit.”</p> | <p>Income Tax Assistance (VITA) programs are typically told in October/November about any required scope changes to their free services. These changes are then communicated to the public through outreach and during the intake process. We have every confidence the IRS will do the same.</p> <p>The idea that some taxpayers are out of scope for any given filing service is not a new or dangerous idea. Already, nearly every free tax offering has eligibility limits, which taxpayers have learned to navigate without incident. This is an entirely familiar aspect of tax administration.</p> |
| <p>If the IRS Direct File tool doesn’t account for all tax filing scenarios, it has failed as a pilot.</p> <p>“It is especially troubling that the proponents of IRS Direct File appear to be over-selling the nascent program’s untested capabilities for the upcoming tax-filing season, or alternatively they may be unaware of the profound, serious shortcomings of the Direct File tool.</p> | <p>Pilots are intended to be limited. When the 2024 pilot is successful, Direct File will grow to accommodate more taxpayers in more tax situations.</p> <p>The IRS is utilizing industry and government best practices in launching a limited-scope pilot to test how best to serve taxpayers and overcome the operational challenges identified in the initial report. By starting with a pilot and iterating, the IRS will build a better, more responsive, and more user-friendly tool.</p> <p>Direct File’s proponents understand the basic premise of a pilot — and, rather than getting deterred by any of its limitations in the first year, are excited about what a human-centered design tool will do in the long term.</p> |
| <p>IRS Direct File will not be free.</p> <p>“Its costs will be borne by American taxpayers. And those costs likely will be significant.”</p> | <p>The IRS Direct File tool will be free to all users, and its cost to taxpayers will be negligible.</p> <p>Even Direct File opponents acknowledge that Direct File will be free to its users. The idea that Direct File is not free relies on badly twisting the definition of free — something that members of the Coalition sadly have plenty of experience with.</p> <p>In reality, even the cost to taxpayers is modest: the highly credible IRS Direct File study estimates technology costs of \$1.23-\$6.76 per return, and customer service costs of about \$8 per return — exactly the type of customer service that the Coalition disingenuously pretends ought to be prioritized over Direct File. The cost to an individual low-income taxpayer, rather than hundreds of dollars for private software, will be \$0.</p> |
| <p>IRS Direct File is unnecessary because there are already a number of affordable options.</p> <p>“Private-sector tax preparation companies offer American taxpayers a wide range of reasonably priced tax-preparation and tax-filing options today.... In addition, 70 percent of all taxpayers ”</p> | <p>A free, public filing service is badly needed, and Americans want the government to deliver it.</p> <p>Americans spend roughly \$31 billion annually to file their taxes and an estimated 87 million taxpayers lose as much as \$13 billion of their refunds to tax prep fees because industry makes it difficult to access free filing options. Moreover, millions of families each year find the existing options too daunting, and fail to file entirely, missing out on funds they are owed. This is a system in need of an easy and free option.</p> |

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| | <p>Given the expense and the complexity of the existing system, Americans are interested in another option. The IRS Direct File study found that 72% of Americans are “very” or “somewhat very” interested in Direct File.</p> |
| <p>The IRS Free File Program is a success and can be improved by increasing awareness of the option.</p> <p>“Over the past two decades, the IRS Free File Program has provided more than 70 million free federal income tax returns.”</p> <p>“While the lowest 70 percent of US taxpayers are eligible to participate in the Program, a MITRE study conducted for the IRS in 2019 concluded that the actual pool of Free File candidates for 2017 was only about 30 million.”</p> <p>“The IRS should use those resources to develop a marketing plan for the existing Free File Program that will help Free File fulfill its potential and serve more eligible taxpayers.”</p> | <p>For 20 years, the IRS Free File Program has not met the needs of the American taxpayers, and additional marketing will not change that.</p> <p>Few taxpayers are able to access and utilize the available free software. Less than 3% of eligible filers use the IRS Free File program annually — driven significantly by the Free File companies’ choice to intentionally hide their own Free file products. Of course, the Coalition for Taxpayer Rights also well knows Free File is a failure; its two most prominent members, Intuit and H&R Block, recently chose to leave the program entirely.</p> <p>The MITRE survey opponents cite underscores the point: although Free File was intended to benefit a majority of American taxpayers, the member tax preparation companies have intentionally reduced the population of qualifying taxpayers to a small fraction.</p> <p>Additional outreach funding will not change the picture. For decades funders and corporations have invested millions in promoting free tax filing resources, including IRS Free File, without any significant changes in the usage of free tax services. It is incredible that the same companies who strategically hid their own Free File offerings are now calling for taxpayer dollars to be wasted promoting an intentionally hard-to-find product. Free File has not worked for the American people, and it is time to try a new approach.</p> |
| <p>The IRS does not have the legal authority to engage in tax preparation.</p> <p>“For very good reason, there is no basis in law for permitting IRS to serve as the nation’s tax preparer.”</p> | <p>The IRS has the legislative authority to create a free and simplified public tax filing option.</p> <p>Longstanding statutes offer the agency broad discretion in tax administration and Congress has provided the IRS Commissioner with expansive authority to “administer, manage, conduct, direct, and supervise the execution and application of the internal revenue laws.” The Code also requires the Treasury and the IRS to “prepare and distribute all the instructions, regulations, directions, forms, ...and other matters pertaining to the assessment and collection of internal revenue.” The notion that the IRS is authorized to provide taxpayers paper forms and publications but not electronic forms is absurd and without merit.</p> |