

# THE COALITION FOR FREE AND FAIR FILING

America's tax filing system is broken. Tens of millions of families in America spend hundreds of dollars a year on tax prep assistance just to fulfill the basic legal obligation of filing a tax return. Millions more—the families with the lowest incomes in our country—find it too hard and expensive to file a return, preventing them from receiving [thousands of dollars in benefits](#) distributed through the tax system. [Closing the tax benefits coverage gap](#) could set many of those families on a path toward greater financial stability.

There's a clear way to do that: the Internal Revenue Service (IRS) can provide a free, easy-to-use digital tax filing service. Direct File is a common-sense, good-government, non-partisan measure for an agency with an \$80 billion modernization budget—an agency that has already taken major [strides toward reaching families with low incomes](#) in recent years. The time for Direct File is now. We have a once-in-a-generation opportunity to reimagine and rebuild the tax filing system.

And it's happening: On May 16, the IRS announced Direct File will launch as a scaled pilot in 2024. Why is this so critical, and why now? It helps to understand how we got here.

## **A brief history of Direct File**

The Direct File story began in 2001. Faced with a Congressional mandate to dramatically increase the rate of electronic tax filing, the [George W. Bush Administration sought to provide a free digital tax filing service on WhiteHouse.gov](#).

At the time, though, an under-resourced IRS could not complete the project, and instead pursued a fallback alternative: they created a partnership with private tax prep companies, which became known as the Free File Alliance. The companies would provide free tax filing services to about 70% of the country. The IRS, in exchange, would not compete with the companies by offering its own service. Free File was a reasonable approach at the time. Two decades later, we know it has not worked. For years, [less than 3% of eligible families have used Free File](#). The Treasury Inspector General for Tax Administration [found in 2020](#) that the program was fundamentally not working; the independent IRS Advisory Committee [concluded the same in 2018](#). And recently, the two largest companies in the Free

File Alliance—H&R Block and Intuit, the maker of TurboTax—left the program entirely, in [2020](#) and [2021](#) respectively.

As Free File has faltered, the calls to create an IRS-run system have grown louder. In 2011, then-Republican Senator Dan Coats of Indiana and Democrat Ron Wyden of Oregon jointly introduced the [Bipartisan Tax Fairness and Simplification Act](#), which included an IRS-run filing option. In [2016](#), [2019](#), and [2022](#), dozens of lawmakers in both chambers cosponsored the Tax Filing Simplification Act, which did the same.

Last year, [the Government Accountability Office \(GAO\) found](#) that relying on Free File was an unmanaged strategic risk, and wrote that the IRS “should develop additional options for taxpayers to file for free.” Earlier this year, the [National Taxpayer Advocate’s annual report to Congress](#) concurred. Most recently, on April 25, a group of 31 Senators [called for the IRS](#) to prioritize creating more free filing options.

### **Obstacles removed**

Up to this point, there have been two primary obstacles to an IRS-run digital tax filing tool.

- First, under Free File, the IRS was legally barred from building such a tool. This changed in 2019, when, in the wake of reporting about duplicitous marketing, [the program MOU was amended](#), allowing the IRS to build its own tool.
- Second, for decades, the IRS has been starved of resources, leaving it barely able to maintain its current operations, let alone improve. This changed in 2022, when the Inflation Reduction Act (IRA) included an \$80 billion investment in modernizing the IRS, leaving the agency resourced to make improvements for American taxpayers.

The IRS is now free to pursue Direct File.

### **The May 2023 Report and the 2024 Pilot**

On May 16, the Internal Revenue Service (IRS) released [a long-awaited report on the prospect of an IRS-run direct tax filing tool](#). The agency found that taxpayers are very interested in direct file, that taxpayers see it as the IRS’s role to develop such a tool, and that the annual cost of running direct file would be modest.

As part of the research process, the IRS developed a working direct file prototype, demonstrating that the IRS can effectively execute this project. As required by law, the report also contained as an appendix the opinions of an independent third party, which corroborated the IRS cost estimates and confirmed that IRS IT players are up to the task. Read more about the report [here](#).

Separately, in a [pair of letters](#) released the same day, the U.S. Department of the Treasury and the IRS announced plans to launch a scaled direct file pilot during the 2024 filing season to assess the

real-world viability of the project.

## **How it will work**

Direct File will be a web application where people can file their tax returns directly with the IRS, rather than through an intermediary. It will be mobile-friendly, available in multiple languages, and easy to use. At first, the IRS tax filing service might look a lot like other filing options. But as the product matures, there are numerous ways the IRS is uniquely positioned to make a filing tool easier for filers—while also streamlining processing on the back end.

As the custodian of taxpayer data—including information from W-2s and prior year tax returns—the IRS can take critical steps to reduce burdens on filers and prevent errors in filing. Additionally, the IRS can integrate a filing tool with its tailored customer service operations—including those in-house and those in the community, like Volunteer Income Tax Assistance (VITA) sites. Targeted outreach campaigns supported by federal agency partnerships would also bring people into the tax system.

An IRS tool will always have one critical advantage: it would be free to those who use it.

A free tool from an official government agency would help encourage people with low income to file taxes and receive the tax benefits they are due.

Above all, an IRS filing service would complement existing options. It is not intended to replace private tax prep. As the IRS Commissioner told the Senate Finance Committee in April, “the main benefit [of such a service] is options.” Most taxpayers will continue to use private services—because they are accustomed to them, because their complex tax situations require more hands-on assistance, or for any reason they please. Ultimately, a free file tool will serve those for whom the current system does not work and be a straightforward option for tens of millions of people with simple tax situations.