September 11, 2023

Dear Public Officials,

Every year, U.S. individual taxpayers spend billions of dollars on tax preparation. For low-income taxpayers, such costs are particularly onerous. One study of low-wage, service sector workers found that workers in their survey spent 7% of their refunds on tax preparation costs.[1] The IRS estimates that the average taxpayer spends more than 10 hours preparing their taxes each year.[2]

Despite a variety of efforts to create free filing opportunities and the valiant work of volunteer tax preparation programs across the country, low-income taxpayers continue to pay to file their tax returns. Others, daunted by the cost and complexity, don't file at all, foregoing the refunds they are owed.

For years, many of us have advocated for a different approach: direct filing using software provided by the federal government. We are thrilled therefore to see the IRS is moving forward with a pilot project to provide direct filing software, which carries the promise of making taxes less burdensome for millions of Americans starting as early as next year, and giving taxpayers much-needed access to truly free tax preparation. **As academics and researchers who study the tax system, we write now to underscore our support for this important pilot program and express our appreciation to Congress for funding the IRS modernization that makes this work possible.**

The Need for Change

The United States tax system is built on a foundation of voluntary compliance, at the core of which is the obligation to annually file a tax return. For too long, the cost of this compliance has fallen disproportionately on individual taxpayers. Although tax forms are available for free, most taxpayers need support to correctly determine their tax liability. Paid preparers and, increasingly, private third-party software have filled this gap. The IRS estimates that 94% of returns are prepared using tax software.[3] Every year, U.S. taxpayers pay not only to keep the government running, but also for the privilege of filing their returns.

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[1] https://shift.hks.harvard.edu/wp-content/uploads/2022/04/Tax_Filing_4_14.pdf
[2] https://www.irs.gov/pub/irs-pdf/i1040gi.pdf#page=107
[3] https://www.irs.gov/pub/irs-pdf/p5743.pdf

Recognizing this problem, the IRS has worked with private software companies for over two decades to develop a free filing option for taxpayers in targeted income ranges. This voluntary program, however, has failed taxpayers. In 2020, about 70% of taxpayers were eligible for at least one Free File option, but less than 3% of eligible taxpayers took advantage of these services.[4] This approach has suffered both from consumer confusion and also deceptive practices by some in the industry.[5]

Progress Is Being Made

Taxpayer advocates and scholars have long suggested that the IRS develop its own tax filing software, in keeping with similar tax administration programs across the globe. Such a program does not bar taxpayers from choosing to pay for third-party software, but it does mean taxpayers will have easy access to a free option if that is what they prefer. (And surveys suggest taxpayers would prefer it![6])

The IRS recently released the results of its study, which concluded such a program was worth pursuing.[7] As a result, the IRS announced that it would be moving forward with a pilot software program. This is amazing news for taxpayers who will now have easy access to helpful, reliable, and free tax preparation software. Moreover, the IRS has committed itself to developing this software in ways that will meet the needs of marginalized taxpayers, by, for example, ensuring that the platform will support multiple languages. After years of advocacy on these issues, we want to acknowledge that this pilot program is something to celebrate.

The Future

The pilot program is, of course, just that, a pilot program. As the IRS has described it, in its first year, the target population will be limited. Many taxpayers who need assistance will likely not be included.

We want to be clear that the limitations of the pilot program do not undermine our support for this important experiment. Rather, we applaud the IRS' decision to move forward with a product that will serve a significant portion of the taxpayer population, with the understanding that if the program proves successful — and we think it will — the program can expand to serve taxpayers with additional types of incomes or who are

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[4] https://www.gao.gov/products/gao-22-105236

[5] https://www.propublica.org/article/turbotax-deliberately-hides-its-free-file-page-from-search-engines

[6] https://www.irs.gov/pub/irs-pdf/p5788.pdf

[7] *Id.*

eligible for a greater variety of deductions. The program could also expand to include optional elements of data automation and pre-population. Dozens of other countries allow taxpayers the option to streamline their filing process by having the tax agency provide the taxpayers' information in the filing software for taxpayers' review.[8] The long-term development of IRS Direct File could make such functionality possible, allowing taxpayers to finish their returns in just a few minutes. Pending the successful completion of the 2024 pilot, we hope Congress and the IRS will remain committed to the project over the course of years and decades so that it reaches its full potential.

Moreover, we commit to working with the IRS as it develops its outreach tools to make sure eligible taxpayers know about these options. We are also committed to working with state leaders who want to eliminate the burden of tax complexity on their constituents by integrating state tax systems with this pilot program. We very much hope that Congress, the IRS, and the Administration will likewise commit to ensuring the public knows that there is a better way for taxpayers to file taxes coming soon.

Americans can debate how high taxes should be, and who should pay them. What is not controversial is that the tax system should allow simple, easy filing for all taxpayers.

With appreciation,

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[8] According to the GAO, at least 36 countries provide return-free filing. (In Estonia, one country on the list, many taxpayers spend only a few minutes to file their taxes.) A 2017 Deloitte study of 34 countries found that 24 have government-provided tax software with some degree of data pre-population.

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