



## Dispelling Myths Around IRS Direct File

The IRS has [announced a path forward](#) for developing a true free file system. The announcement is both [popular](#) and long overdue. Despite this, a number of myths persist around IRS Direct File and what it could mean for tax filers. The following document dispels five myths and was developed by Groundwork Action, Economic Security Project and Public Citizen to help inform future conversations around the development of free and simplified tax filing.

MYTH	FACT
<p><b>An IRS free file system is a conflict of interest and the IRS is incentivized to over-charge taxpayers.</b></p> <p><i>“An IRS direct-to-e-file system will create a clear conflict of interest for the IRS, given its role as tax collector, administrator, auditor, and enforcer,” an Intuit spokesperson said. [WSJ, <a href="#">5/15/2023</a>]</i></p>	<p><b>Government agencies are built to serve the public and it is a double standard to assume that the IRS is any different.</b> No one thinks that it is a conflict of interest for the Social Security Administration to calculate benefits or make it easier for Americans to apply for retirement or disability payments.</p> <p><b>The IRS’s only incentive is to follow the law and ensure taxpayers’ filings are conducted correctly – that means getting taxpayers the refunds and credits they deserve. Incidentally, the only actor in this space with a well-documented conflict of interest with regard to the financial interests of taxpayers is private industry.</b> Meanwhile, tax prep companies have a huge financial incentive to make things more complicated to sell more services. An estimated 87 million taxpayers lose as much as <a href="#">\$13 billion of their refunds</a> to tax prep fees annually because the industry makes it difficult to access the free file system. That does not include the fact that TurboTax just had to pay a <a href="#">\$141 million settlement</a> for misleading low-income tax filers and trying to make people pay more to file their taxes.</p>
<p><b>An IRS free file system will hurt low-income taxpayers.</b></p> <p><i>“[The IRS building a free file system is] a bad idea that will especially hurt low-income and other vulnerable individuals and families,” an Intuit Spokesperson said. [WSJ, <a href="#">5/15/2023</a>]</i></p>	<p><b>The tax prep industry is hurting low-income taxpayers and IRS free file system could leverage the data that the IRS already has in order to make sure more people can access the tax credits they are owed.</b></p> <p>Right now, roughly <a href="#">one in five eligible families</a> – five million people – don’t get their Earned Income Tax Credits (EITC) because it’s too hard or expensive to file taxes. Free services from the IRS could completely transform that, helping more families claim the credits they are owed.</p>
<p><b>The IRS needs legal authority to build a free file system.</b></p>	<p><b>The IRS has the legislative authority to create a free and simplified public tax filing option.</b></p>

<p><i>But if the IRS already has a prototype before the New America report has been released, “this suggests a pre-determined outcome and flies in the face of previous commitments Commissioner Werfel made to publicly consult Congress on a potential free-file solution, and for the IRS to not act without explicit legal authority.” [WaPo, <a href="#">5/15/2023</a>]</i></p>	<p><a href="#">Longstanding statutes</a> offer the agency <a href="#">broad discretion</a> 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 <a href="#">requires</a> 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.”</p>
<p><b>An IRS free-file system is unnecessary.</b></p> <p><i>“A direct-to-IRS e-file system is wholly redundant and is nothing more than a solution in search of a problem,” Intuit spokesman Rick Heineman said in a statement, “and that solution will unnecessarily cost taxpayers billions of dollars.” [WaPo, <a href="#">5/15/2023</a>]</i></p>	<p><b>Existing free file options have failed low-income tax filers. Taxpayers deserve the right to options.</b></p> <p>The tax prep industry has <a href="#">bent over backwards to push people toward paid tax filing</a>, that’s why only 3% of eligible tax filers get free tax filing today. In fact, since Intuit and H&amp;R Block pulled out of the Free File Alliance, the number of returns filed through the program <a href="#">dropped 16%</a> this tax filing season compared to last year.</p> <p>Taxpayers would have the choice to file taxes for free on the IRS website or prepare their own federal taxes using paid services.</p>
<p><b>Surveys suggest Americans don’t want the IRS to build a free-file system.</b></p> <p><i>“As few as 12 percent and as many as 73 percent of taxpayers would opt for an IRS direct file system depending on costs, complexity of filing, and whether state tax return software is included in the bundle, according to a survey by MITRE Corp.” [Tax Notes, <a href="#">5/9/2023</a>]</i></p>	<p><b>Americans would like the choice of a truly free filing option.</b></p> <p>The survey conducted by the MITRE Corp shows that over half of taxpayers would prefer an IRS solution over a private solution for a simple tax situation, but splits that support over two different IRS products. It also assesses a situation where private solutions are free for all filers – an option that does not exist in the real world. Meanwhile, clearer research from a larger-sample survey in the IRS report shows that 72% of taxpayers (and 83% of those who self-prepare their returns) would be interested in an IRS direct file tool. This matches data from a Navigator poll where <a href="#">76% of taxpayers said</a> they like the prospect of the IRS creating a no-cost and simplified tax-return filing service on its website.</p>
<p><b>The IRS direct file tool will not support EITC.</b></p>	<p><b>While the final scope of the 2024 pilot has not been released, we have every indication that the pilot will include EITC.</b> Commissioner Werfel's statements to Congress and the entirety of the IRS's Strategic Operating Plan make clear the agency is highly focused on delivering benefits to low-income families through the tax code. The EITC (as well as the CTC) would be expected to be included in the pilot scope. In the long run, the IRS report describes the scope of the VITA program as the <i>minimum</i> possible scope for a direct file tool; EITC is of course well within the scope of VITA.</p>

<p><b>The IRS direct file tool will leave taxpayers no option to file their state returns.</b></p>	<p><b>The IRS report rightly finds that taxpayers expect to file their federal and state returns together, and identifies this as a key operational challenge to be solved in the direct file tool.</b> The 2024 pilot is positioned explicitly as an opportunity to study how the state filing issue can be best resolved. The New America / Kleiman appendix to the report also includes technical details on how states or third parties may be able to build state filing solutions based on data entered in the federal direct file tool.</p>
<p><b>IRS Direct File is going to cost taxpayers billions of dollars</b></p> <p>"To have another sort e-tax software available is really immaterial. It's the way we think about it. And I'll remind us, by the way, it's actually not free — this is going to cost taxpayers billions of dollars," Goodarzi told analysts on a late Tuesday earnings call. [Yahoo finance, <a href="#">5/24/23</a>]</p>	<p><b>IRS Direct File saves tax filers money and costs less than \$250 million a year.</b> The IRS estimates that the cost of the Direct File program is somewhere between \$64 million and \$249 million a year. Investing in serving American taxpayers is an investment well spent. Even using the high water mark, which assumes very high uptake of the tool and includes the technology plus customer service costs, that works out to just \$10 per return – a fraction of the \$140 Intuit and H&amp;R Block are charging people to use their services on average. spent. This is a bargain for American taxpayers and is worth the investment. Moreover, this is exactly the sort of project the IRS should be undertaking with the \$80B in IRA funds that Congress already dedicated to IRS customer service and technology modernization. Indeed, the project is included in the IRS's ten-year Strategic Operating Plan about how to spend the funds.</p>