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The Future of Tax Filing

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¹ The ideas in this report are based on the work of a wide range of experts, many of whom helped develop the work you see here, including reviewing draft materials. These include Courtney O'Reilly, Nina Olson, Elaine Maag, Greg Leiserson, Kathleen Bryant, and many others who have worked on tax access in general, or Direct File in particular.

How to use this report

This report represents a look back and a look forward from civic technologists who were involved in the tax reform movement of the Biden Administration, and in the creation of Direct File in particular. It documents what happened and what was learned in the run-up to and implementation of Direct File from 2021 to 2025, distills key policy conclusions, and lays out a program of future reform. It is an attempt at nearly-exhaustive documentation. As such, different components of the report will be helpful to different policymakers, technologists, and administrators attempting to advance the project of tax access reform in the future. The content is intended to be comprehensible for anyone with some grounding in government administration in general and the basics of tax administration in particular.

The report is organized in 15 chapters, each of which can be read alone or in conjunction with the rest of the report. Where appropriate, readers are directed to other sections or chapters to help find more detailed information on related topics. The report's 15 chapters are presented in three parts: 1) the Story of Direct File; 2) Building Direct File: Policy and Strategy; and 3) Beyond Direct File: a Vision for the Future of Tax System Access.

Part 1: The Story of Direct File (Chapter 1)

Chapter 1 is a first draft of history, telling the story, from the perspectives of the authors, of how Direct File went from relatively-little-discussed advocate pipe dream to reality during the Biden Administration. We include portions of this story that were not publicly shared at the time and highlight a handful of themes that run through the narrative. We believe having this thumbnail of what happened may help future reformers move faster and more effectively in reviving Direct File, or pursuing other similar initiatives.

Part 2: Building Direct File: Policy and Strategy (Chapters 2-9)

Launching an entirely new tax filing product is a hard and multi-faceted project, and over our years of working on it, we built a great deal of institutional knowledge around the various policy and strategy issues at play. Chapters 2-9 provide an overview of some of those issues — how decisions were made to date, where things may have been on track to go in 2026 or 2027 had Direct File continued, and how future decision makers should consider approaching these issues moving forward.

What's in these chapters: a framework and reference for future implementers

These chapters reflect our best effort to be useful rather than merely opinionated: prescriptive where experience gave us clarity, and descriptive where it did not. Our goal is to ensure that any future teams reanimating something like Direct File do not have to start from square one. Where our experience left us with clear opinions about the right path forward, we lay out that path. Where the right next steps are not clear, or where several

paths are viable, we lay out a framework of how decision makers may think about their next moves. Where policy and strategy choices became entangled in a web of implicit barriers and inherited policies, we describe that web as much as possible, including parts that generally weren't previously publicly discussed. We also try to highlight issues that we feel were not well understood in the public discourse, and issues that, as implementers, we had an especially hard time getting our arms around, in the hopes that future teams can have a head start.

These chapters are intended to be useful overviews for any implementation teams picking up a Direct File project in the future, particularly policymakers and technologists at the Treasury, IRS, and state revenue departments. They should also be useful to those who intend to influence and guide the work of the tax reform space more broadly — funders, thought leaders, filing advocates, and organizers.

These chapters are *not* overviews of how the code works or how the product team was organized; for that, readers should consult the [Direct File open source code](#), and the [appendices of the Filing Season 2025 Direct File report](#). Likewise, these chapters are restricted to the central policy and strategy questions of the core of Direct File. Direct File tangentially touches a wide range of IRS functionality, and indeed could in principle expand directly into these other areas in the future. Those other topics are discussed in Chapters 10-15.

The case for Direct File

This report is not primarily a defense of Direct File or a description of its past or potential future impact — all of which has been [documented at length elsewhere](#). That said, we of course believe deeply in Direct File and our analysis throughout this report is rooted in the specific significant advantages it offers over the status quo tax filing system. At the most basic level, we believe that if the government requires people to file taxes, it has an obligation to provide a free, accessible, public way to do so — and that outsourcing that function entirely to commercial industry that charges for it is indefensible. We envision Direct File as a free, easy tax filing option for a majority of taxpayers — and especially for those who cannot afford commercial offerings, or who face particular obstacles accessing the system. We envision it, furthermore, as the centerpiece of a growing constellation of reforms intended to ease access to the tax system, save taxpayers money, and close the gap in tax benefits access. Compared to existing tax prep offerings today, Direct File has four foundational key advantages, the importance of which come into play throughout the various issues discussed below:

1. *Free.* Direct File is *unconditionally and always* free. There are many other tax filing options that are advertised as free, sometimes free, partially free (for example, free federal returns paired with paid state returns), or free with caveats (for example, you do not pay a fee to use the service, but your data may be sold for a profit). Direct File is free without caveats.

2. *Easy and automated.* Direct File was and can be built around the assumption of using IRS data to streamline the filing process. In time, this means the Direct File experience will eradicate tax filing as we know it for many taxpayers, turning a stressful chore into a quick, painless process.
3. *Public and official.* Direct File is a publicly-owned product and an official offering of the government. This means taxpayers do not have to engage with third-party providers they may not trust. It means that taxpayers can have faith that the tax interpretations implemented by Direct File are fully endorsed by the government. It means that Direct File can pursue the goals of empowering taxpayers and making their returns transparent and comprehensible, rather than painting the tax system as an impossibly complex knot of arcana that only experts could understand, in the interest of upselling bewildered taxpayers. And it means Direct File can be straightforwardly promoted as the official tax filing option, breaking through the noise and choice overload of dozens of slightly different private tax filing options — making a particularly big difference in getting through to hard-to-reach populations, including new and intermittent filers.
4. *Integrated with other IRS services across the tax system.* As an IRS product, Direct File need not be an island. Rather, it can be positioned as a connector and a front door within a suite of services that collectively enable all taxpayers to access tax benefits and fulfill their filing obligations — including connections to higher-touch filing services (e.g., the Volunteer Income Tax Assistance program, or VITA), to year-round engagement with the tax system, and more.

Chapters 2-9 at a glance

2. *Data import / pre-population:* using IRS data to streamline the filing process through Direct File. A conceptual framework for the goals and limits of pre-population, and a detailed discussion of the various data sources that have been and can be used, including policy changes needed to make them viable for Direct File use.
3. *Tax scope:* which tax situations Direct File does and does not cover. How to think about and approach the sequencing of new tax scope items, how to balance the competing pressures of agile development with advance planning, and how far Direct File should eventually go.
4. *State taxes:* how Direct File supports taxpayers' state (and local) filing requirements. Background on the status quo interaction of federal and state filing systems, an exploration of the different high-level approaches Direct File could have taken to the state filing question, and a detailed discussion of the implementation of Direct File's chosen solution, including limitations of the approach and future alternatives.
5. *Identity verification:* what identity verification requirements Direct File did and should impose on taxpayers. A discussion of the cross-government dynamics, including NIST standards and bureaucratic ambiguity, that led Direct File to be put behind rigorous identity verification in the first place, and possible alternative approaches for government in general and Direct File in particular.

6. *Usage and cost levels*: an exploration of the dynamics of Direct File’s costs and usage. A detailed analysis of usage in 2024 and 2025, including demographic and state-based patterns, and benchmark projections of what usage may have looked like in future years. A discussion of different usage goals a team may set.
7. *Promotion and outreach*: a brief discussion of how to get Direct File into the hands of taxpayers, what we know about what has worked so far, and which avenues future organizers should explore.
8. *Integration between Direct File and other IRS systems*: a brief discussion of how Direct File could become the seed of wider online transformation at the IRS.
9. *Fact graph, and a new way of building civic technology products*: a proposal for a new way of building civic technology products, by building on the key backend components that drove Direct File — including a robust fact graph logic engine and a backend GUI that allows cross-functional teams to envision, understand, and collaborate on the product. Fully implemented, this way of working would open up new possibilities for state tax support in Direct File, and other opportunities across the government technology space.

Part 3: Beyond Direct File: A Vision for the Future of Tax System Access (Chapters 10-15)

Because filing a tax return is the most important interaction most taxpayers have with the tax system, Direct File is naturally the central component of any program to improve tax access. But it is not the only component. These chapters explore a variety of other issues that are critical to a functioning and accessible tax system, particularly for low-income populations and new or intermittent tax filers — all beyond the bounds of the core project of Direct File.

The nature of these chapters varies significantly. Some envision statutory changes while some describe administrative projects; some contain specific policy proposals while others simply provide a framework for action.

As these projects are not based on Direct File itself, some of them could in principle be advanced in the short term, even with Direct File currently canceled and new IRS initiatives essentially on hold at the federal level.

The original user research that informs these chapters

These chapters stem not just from our experience working on Direct File and our own desk research, but also from a round of 15 user research sessions we conducted in the summer of 2025, which explored primarily the topics in Chapters [11](#) and [12](#) — and, tangentially, the topics in Chapters [10](#) and [14](#). These were one-hour structured sessions with one participant at a time, probing attitudes and beliefs about different aspects of the tax system. User research in this context should not be confused with *usability testing*: we were not putting software products in front of research participants and asking them to use them. Rather, we

were learning how taxpayers think about and interact with the tax system. Plenty of reforms that may seem natural and important to tax policy experts may not actually align with the desires and preferences of most taxpayers. If we want to build an intuitive tax system that meets people where they are, we indeed need to learn where they are. A single round of user research sessions is not gospel; we are not proposing to overhaul the entire American tax system based on the opinions of 15 people. But, even a small number of conversations can generate a relatively strong signal about the intuitions of the average taxpayer.

We recruited the 15 taxpayers through an online platform for research participants. We spoke with a janitor and business owners, delivery drivers and teachers; we spoke to a mix of married, divorced, or never married people, and a mix of household makeups ranging from individuals living alone to families who shared intergenerational homes or had mixed citizenship status. Nine participants had children under the age of 18 currently in their care (two of whom also had children over 18); one had previously had children under the age of 18 in their care; and five had never had children in their care. We observed adults who claimed their children every year on their tax returns, those who claimed children in alternating years with another parent, and those who had nonbiological children in their lives whom they treated as their own. Household incomes ranged from less than \$30,000 up to \$100,000, with an average household income of roughly \$58,000. We prioritized (for purposes of the material discussed in Chapters [11](#) and [12](#)) taxpayers with gig economy income, and taxpayers with children and non-traditional family situations. As a basic demographic breakdown:

Gender	Female - 10 Male - 5
Race	White - 8 Black - 3 Hispanic/Latino - 2 Middle Eastern and North African - 1 Asian - 1
Household income	<\$30K - 2 \$30-60K - 6 \$60-100K - 7
Marital status	Divorced/separated - 6 Never married - 5 Married - 4
Filing status	Single - 6 Head of Household - 4 Married Filing Jointly - 4 Married Filing Separately - 1
Earned income types	1099 and W-2 - 9 1099 only - 4

	W-2 only - 2
Kids <18 in your care	Yes - 9 No - 6

Where possible, we include quotes from these research participants to illustrate key points. To protect their anonymity, we refer to them as, for example, “Participant #7.”

Systemic reform and coherence

As we explore topics beyond Direct File, we encounter tension between interventions that might best advance a narrow or short-term goal on one hand and those that would promote the overall tractability and organization of the tax system on the other. Throughout these chapters, we take as axiomatic the importance of the latter goal: we believe that, in the long run, taxpayers will be best served by an overall tax system that is well-defined and coherent. In particular:

- We believe the tight integration of federal and state returns is a major boon to tax system access and reducing administrative burden, and that any reforms that would interrupt that integration would likely do more harm than good in the long run.
- We believe that reforms should aim to make standard tax filing work better across the board, rather than creating complex, bespoke workarounds for specific populations. A system built on carving out alternate processes risks becoming fragmented and inequitable — as well as harder to administer and to navigate. This theme is explored in [Chapter 2: Direct File and data import](#) and again in [Chapter 14: Non-filers](#).

Chapters 10-15 at a glance

Chapters 10 through 12 cover the basic functioning of the tax system:

10. *IRS communications.* We explore how the IRS does and should communicate with taxpayers, especially regarding electronic communications. While this topic is not the most significant on its own, we believe it is an important prerequisite for many of the other potential reforms we describe in later chapters.
11. *Real-time taxes.* We explore topics related to taxpayers’ year-round interactions with the tax agency, including estimated payments, withholding, and potential advance payments of credits — ensuring taxpayers are paying roughly the right amount throughout the year, and do not receive too-large lump-sum refunds or owe money back to the IRS at tax time. These topics are especially relevant for gig economy taxpayers, and the overall topic represents a major gap in the current system, which largely conceives of tax filing as a once-a-year exercise. We believe there is a strong case for a new product that would help taxpayers manage their year-round tax obligations, supported by new reporting and data pipelines. Taken together, these measures would constitute a glide path to a pay-as-you-earn system.

12. *Dependents.* We discuss which taxpayers are allowed to claim which children, and how the tax system handles cases of conflicting claims. The chapter argues that the current rules are not well aligned with taxpayer intuitions — creating classes of children who cannot be claimed, creating widespread perceptions of noncompliance and coverage gaps that are largely illusory, and creating significant administrative burden and overhead. We propose a new framework for dependent rules that would resolve most of these issues.

Chapters 13 and 14 discuss reaching taxpayers who fall through the cracks:

13. *Additional tax filing assistance.* Direct File is a DIY option for taxpayers who can file returns without much hands-on support. This chapter explores what IRS policy should be for taxpayers who *do* need more assistance, and how the VITA program in particular can evolve to better meet these needs.

14. *Non-filers.* Even in a world of Direct File and a highly-accessible VITA, there will be some taxpayers who still fail to file returns. This chapter explores how to serve those persistent non-filers and proposes a framework to ensure they receive their refunds without compromising the overall structural integrity of the tax system. We propose in particular the establishment of a “non-filer filing season” in May-November and the creation of a Non-Filer Team at the IRS that would target non-filers in this period; and we lay out some of the programmatic interventions the team should experiment with. We also discuss the role of “simplified filing” in the tax system, and the state-level implications of our recommendations.

One final chapter concerns the management of the tax ecosystem:

15. *IRS and private providers.* Private providers play a large role in the tax ecosystem, and even in the most aggressive visions of IRS modernization explored here, they will continue to do so in the future. This chapter explores how the IRS ought to conceptualize its relationship with these providers, and proposes a realignment to better promote competition and consumer protection.

Of course, this list of topics is not comprehensive. It does not include items like IRS organization and staffing, especially in rebuilding from its current weakened state; it contains only limited engagement with the substantial issue of regulating non-credentialed return preparers and other third-party actors; it does not include structural technology reforms, like replacing aging IRS systems; there are various niche taxpayer service items that we do not particularly address, including amended returns (a persistent technological and administrative challenge), the IP PIN program (which can create access barriers for low-income taxpayers), math error notices, and many more. Still, we think an IRS reform program built around the items we discuss here would yield significant progress — promoting taxpayer access, advancing trust in the integrity of the U.S. tax system, and building confidence in the IRS as an honest broker of the nation’s shared resources.

Part 1: The Story of Direct File

1. The story of Direct File and tax access reform in the Biden Administration

Gabriel Zucker

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Summary

- The story of how Direct File came to be is of relevance for reformers seeking to create similar change in the future — perhaps with more staying power. Though we do not present the story with any particular thesis, readers may keep in mind a handful of themes: time to launch, implementation strategy, opposition from private industry, legislative versus administrative action, and agency independence.
- By the outset of the Biden Administration, filing reform was nearing the political agenda due to a variety of independent influences: the faltering of the Free File Alliance (1.1.1), the interest of the civic tech movement (1.1.2) and child allowance advocates (1.1.3), and experience of pandemic-era assistance programs administered through the tax code (1.1.4).
- When the expanded CTC was enacted in the American Rescue Plan in March 2021, the government needed an easy-to-use simplified filing tool for traditional non-filers, but opted not to build one, working with external non-profit Code for America to create GetCTC instead. The experience whetted the appetite in government to take control of its own destiny, and galvanized support from aligned advocates. GetCTC could later have been adopted into government and developed into Direct File, but ultimately was not, as the expanded CTC fell out of the policy spotlight. (1.2)
- Instead, the decision to build Direct File was the result of about a year and a half of internal administration debate and study. Intuit's departure from the Free File Alliance in July 2021 was a critical part of this process (1.3.1). The debate featured two separate policy processes, in late 2021 (1.3.2), and early 2022 (1.3.3), and was pushed to a final resolution by the passage of the Inflation Reduction Act in August 2022, which directed the IRS to study a free, public filing option (1.3.4).
- The lack of a public commitment to pilot Direct File until after completion of the report to Congress meant opposition did not coalesce early in 2023 (1.4.1), though support from states, external stakeholders, and VITA programs was also hard to organize (1.4.3, 1.4.4, 1.4.5). Building the product was an all-out sprint to the finish line (1.4.2) and ultimately created a very tight schedule during the pilot roll-out in 2024, which featured some clashes between agile methodology and traditional government ways of working — but the product was clearly a success (1.5).
- It was announced in May 2024 that the Direct File pilot would be converted to a permanent program, generating more support and enthusiasm from a range of angles, though also further galvanizing right-wing opposition (1.6). When Democrats lost control of all branches of government in November 2024, it was only a matter of time before Direct File would be killed, which it eventually was — effectively in March 2025, and officially in fall 2025 (1.7).
- Many other taxpayer experience initiatives in the IRS Strategic Operating Plan (SOP) to implement the Inflation Reduction Act largely had no more staying power than Direct File, and in some cases took even less root in the agency. (1.8)

When the Biden Administration began in January 2021, free public tax filing was barely on the agenda. By the time the 2024 election came around, IRS reform was one of the administration's signature domestic initiatives, and Direct File one of its most visible features. This Chapter tells, as best we know it, the story of how that came to be.

We tell this story not to assign blame or extract tidy lessons, but because we believe it is an interesting and little-known account of how a technocratic idea gets onto the political agenda — a case study in making change.

As we go through the story, we encourage readers to keep in mind a few themes:

- *Time to launch.* Various stakeholders have observed that, had Direct File launched in 2023, or even 2022, it may have been well-enough entrenched by 2025 that it would not have been so easily uprooted by partisan political forces. Direct File's infancy indeed made it an easy political target for the new administration. But “do it sooner” doesn't happen by fiat. There are reasons it took so long to get Direct File off the ground, and reformers looking to move faster in the future (on Direct File or any other analogous project) would be well advised to study this story and to plan specifically for the real obstacles they are sure to run into.
- *Implementation strategy.* Direct File launched with a promising (and ultimately successful) high-level strategy of starting small and taking the time to get it right. Plenty of high-profile government projects, particularly technology projects, have been pushed into production without successfully holding such a line. That Direct File was afforded the space to execute this strategy is a part of its success that other projects should seek to emulate.
- *Opposition from private industry.* The existence of entrenched private industry opponents played a significant role in the development of Direct File. The story of the tax prep industry's active opposition to Direct File was not widely told during the Biden Administration. But the opposition was potent, and stakeholders had to make numerous choices to ward off attacks. We discuss some (though by no means all) of those choices here.
- *Transparency.* Reformers inside government generally eschewed drawing public attention to their work, even as the likelihood of piloting Direct File increased. This quiet, heads-down approach helped avoid preemptive opposition, but it also hampered the building of external support and partnerships. The benefits and drawbacks of transparency are an important tradeoff for reformers to navigate.
- *Legislative and administrative action.* Though Direct File primarily came into existence through executive action, Congressional action and the debate around it were important inputs into the pace and shape of change.
- *Agency independence.* An administration may be wary of insisting on changes that agencies themselves are not sold on, especially when the agency in question is a traditionally non-political and semi-independent agency like the IRS. And yet creating big change is likely to ruffle feathers within large agencies even in the best of circumstances — doubly so if the change involves second-guessing *how* agencies

do their work. How much to defer versus how much to insist, and how much to rely on insiders versus parachuting in newcomers, are complex questions.

Finally, a few caveats. Most importantly, readers should understand that this is the story of Direct File as understood by a few of the people who were involved in developing it. The product's launch was the result of the work of dozens if not hundreds of people in and outside of government, and there is probably much to this story that we do not know, or that we understand incorrectly. This is not an authoritative account cobbled together from dozens of witnesses, and it is surely incomplete. Still, we hope it is helpful to policymakers and reformers interested in learning from past experience as they create change in the endlessly complex world of American government.

Also, this Chapter is primarily the story of Direct File. But Direct File cannot entirely be extricated from its broader context in the tax access and tax benefits reform movement, and so we include some related elements from that larger story.

1.1 Filing reform before the Biden Administration, 2001-2020

For nearly two decades before the Biden Administration, other than [a passing mention in the 2008 Obama campaign](#), public tax filing had been largely absent from the political agenda. In the late 2010s, though, a handful of factors began to raise the salience of the issue. In Congress, [starting in 2016](#), Senator Elizabeth Warren began introducing a series of ambitious bills to build political support. And throughout the tax, government, and policy landscapes, the pieces were coming together to set the table for action.

1.1.1 The Free File Alliance begins to crack

The story of the missed opportunity to create Direct File² in 2001 has been told in detail [many times](#): In short, the Bush Administration proposed creating a free, public tax filing tool, but the IRS ultimately opted instead to set up the Free File Alliance (FFA), a public-private partnership under which private tax preparation software would ostensibly offer free tax filing to large portions of the population. In exchange, in the Memorandum of Understanding (MOU) between the IRS and the FFA, the IRS promised not to create its own tax filing software. Of course, the FFA commercial tax prep company participants were generally incentivized to ensure relatively few taxpayers people used the program, steering users to their paid products instead. As a result, Free File usage hovered around 3 million taxpayers annually in the late 2010s — about 2% of individual taxpayers (despite Free File being nominally available to 70% of taxpayers under the MOU).

Still, FFA, thanks in large part to a potent lobbying campaign by the commercial tax prep industry, seemed to hold all the cards for nearly two decades, with the IRS stepping back from any role in the tax filing experience, and indeed developing a culture of extreme caution about upsetting the apple cart by straying too close to the tax filing space. If the

² Throughout this Chapter, we refer to a free public online tax filing tool generically as “Direct File,” even though that name did not exist until 2023.

IRS could not create its own filing services, it needed to make sure private industry did not withdraw theirs. The weakness of the IRS posture was exacerbated by the declining funding for the agency. In the late 2010s, Free File [was on the verge of being enshrined in statute](#), and the idea of an IRS replacement would have seemed fantastical.

But the status quo began to fall apart late in the first Trump Administration. In April 2019, ProPublica revealed [that Free File companies were intentionally hiding their free offerings in online searches](#), following up later that year with [a long exposé of Free File's lobbying tactics](#). Shortly thereafter, [proposed legislation to make Free File permanent lost momentum](#).³ In December 2019, under pressure, [the IRS and FFA amended their long-standing MOU to drop the IRS's non-compete clause](#) — though the government would still have to alert the companies if they intended to provide a competing product. Based on the ProPublica investigation, [a coalition of state attorneys general began investigating the advertising practices of Intuit \(parent company of market leader TurboTax\), eventually winning a 50-state \\$141 million settlement in 2022](#).⁴

From that point on, the floodgates fully opened. The state AGs' investigation was followed starting in 2021 or 2022 by a Federal Trade Commission (FTC) investigation that [also found against Intuit in 2024](#) — and then an additional FTC investigation in 2024 that [found against H&R Block in 2025](#). An investigation in 2022, meanwhile, found that the tax companies [may have been illegally harvesting taxpayer data](#), leading to Congressional oversight. All that, though, was for the future back in 2020.

Still, perhaps seeing the writing on the wall, perhaps convinced there was no risk from a weakened IRS, or perhaps simply recognizing that the industry was moving in a new direction,⁵ [H&R Block, the third-largest player⁶ in the DIY tax filing space, left FFA in June 2020](#).⁷ This did not make huge waves at the time or significantly weaken FFA, though those changes would come when Intuit, by far the largest player in the DIY space, would follow H&R Block's lead a year later in July 2021 (see Section 1.3.1). By the time the Biden Administration was entering office in January 2021, FFA was still in command, but was not the invincible giant it had appeared to be a few short years earlier.

³ Free File had been — and still is — governed only by an MOU between IRS and FFA, which is periodically renewed, without any act of Congress.

⁴ The terms of the settlement also prevent Intuit from rejoining the Free File Alliance in the future.

⁵ Credit Karma Taxes (now Cash App Taxes) had [begun making waves in the tax filing space in 2017](#), offering entirely free filing services and generating revenue by monetizing users' data. This data monetization was prohibited in the FFA terms.

⁶ Though H&R Block is by most measures the second-largest company in the tax filing space overall, a much larger part of the company's business is its paid preparer service, rather than online DIY filing software.

⁷ The MOU is structured as a legal relationship between the IRS and the FFA, an umbrella with member companies; the companies themselves are not party to the MOU. As such, the departure of a company does not occasion the renegotiation of the entire MOU.

1.1.2 The civic tech movement zeroes in on tax filing

The civic technology movement as it exists in the federal government today significantly got off the ground in the wake of the [troubled 2013 launch of Healthcare.gov](#). The high-profile technology failure of a top government initiative [expedited the creation of the U.S. Digital Service \(USDS\)](#), a team within the Office of Management and Budget (OMB), which would recruit private-sector tech talent to improve digital services across the federal government.⁸

It was not lost on the early civic tech leaders that the tax system was fertile ground for intervention. They were looking to transform government services that large numbers of Americans interacted with directly, creating as much impact as possible for everyday Americans — and there is probably no government service more universal than tax filing. There were early USDS efforts in the late Obama Administration to work with the IRS. These did not lead to an enduring partnership, though, and as the early expansion of USDS came to an end in 2016, Treasury and IRS were not among the agencies where it had any real footing.

But tax access remained, somewhat more abstractly, a focus of the new digital government implementation movement that continued to take shape during the first Trump Administration. In particular, funders and organizations were interested in benefits that went unclaimed due to frictions in interacting with government, and federal tax benefits increasingly became a focus among these actors, who would in time have some influence in staffing the new Biden administration.

1.1.3 The child allowance movement builds a tax filing constituency

During the first Trump Administration, momentum was also building in Democratic-aligned policy circles to create a monthly child allowance, available to nearly every child in America, including very low-income families who historically had not been eligible for tax benefits and had not filed taxes. The allowance would be administered through the tax system. The policy was, as far as we know, first fully articulated in the [2017 American Family Act](#), and then again in the [2019 Working Families Tax Relief Act](#), which played a meaningful role in the 2020 Democratic presidential primary. Administrability concerns in general and tax filing in particular were not at the center of this policy debate, but a large community of stakeholders was being built up, who would eventually come to care quite a lot whether it was free and easy for low-income families to file a tax return.

1.1.4 COVID and the CARES Act

While the above efforts gathered steam slowly, one final element came into the picture all at once: COVID-19. Weeks after the start of the pandemic, Congress passed the CARES Act on March 27, 2020, containing, among other things, Economic Impact Payments (EIPs) — or

⁸ USDS would later be converted into the Department of Government Efficiency, or DOGE, in January 2025.

‘stimulus payments’ as they came to be known — of \$1,200 per adult and \$500 per dependent, structured as fully-refundable advances of a Recovery Rebate Credit (RRC) on taxpayers’ 2020 taxes.

At Treasury and the IRS, there was an immediate and incredibly effective full-court press to ensure access, especially for those eligible taxpayers who were not required to file returns (because they earned little or no income). Payments went out to all taxpayers with current data [two weeks later](#). [By April 10, the IRS had announced](#) that payments would be automated to non-filers who received Social Security benefits, using data from the SSA — itself a basically unprecedented step.⁹ On April 15, this [automation was expanded to Supplemental Security Income \(SSI\) recipients](#), and on April 17 [to Veterans Affairs \(V.A.\) beneficiaries](#).

Most importantly for this story, the IRS moved quickly to create a streamlined filing process for non-filers without a tax filing obligation to sign up for the payments. Since the payments were the same amount for everyone with income below a very high threshold, people without a filing obligation could simply provide their identifying information, their children’s identifying information (if applicable), and their payment information (direct deposit, or mailing address); that’s all that the IRS would need to issue payment. Treasury issued its first draft of guidance for this simplified filing procedure five days after the CARES Act passed, in [Revenue Procedure 2020-28](#) (which was amended slightly a few weeks later). Nine days after that, just two weeks after the CARES Act passed, [the IRS launched a simplified filing tool](#) (aka the non-filer tool, or the “non-filers: enter payment info here” tool) implementing that Revenue Procedure.

The simplified filing tool was far from perfect. Since the IRS, then as now, had no internal tax filing software capacity, it was an adaptation of the Free File Fillable Forms tool (built by Intuit on behalf of the FFA), which is designed for sophisticated taxpayers comfortable with tax filing, and is more or less a set of browser-based fillable PDF tax forms. It is not interview-based; instead of, for example, helping you determine if your child is your dependent, it simply asks you to enter your dependents’ information. The product was only available in English, and was not mobile-responsive, meaning it was very hard to use on a mobile phone. It was likewise not accessible for taxpayers with disabilities using assistive technology. There was also confusion, in the overwhelming times of April 2020, over the fact that the simplified filing tool was actually filing a tax return, which precluded taxpayers from later filing a traditional return to claim their full refund.¹⁰

Still, the IRS was, for the first time, playing a leadership role in administratively simplifying tax filing to promote access. It was (indirectly) providing a tax filing product to ease access specifically for low-income populations. That was a huge conceptual step forward, even as it left a lot of details to be resolved. When House Democrats passed the HEROES Act in May

⁹ The beneficiaries *would* have to file a return or use the simplified filing tool if they had dependents to report, since the existing SSA data would have no record of those dependents.

¹⁰ Taxpayers could, in principle, paper file a superseding return. But paper returns in this period were being processed with extreme delays.

2020 (even though it was never passed into law), its proposed CTC expansion and additional EIPs foreshadowed the importance this issue would continue to have going into 2021.

Not only was the accessibility of free tax filing then already a hot topic in 2020, but now when the Biden Administration came to office in January 2021 and passed the American Rescue Plan Act, issuing even more EIPs and expanding the CTC, it was going to be an incredibly hot topic indeed.

1.2 The expanded CTC era, 2021-2022

1.2.1 After expanding tax benefits, the Biden Administration declines to build its own filing software

Between November 2020 and March 2021,¹¹ an ambitious domestic policy bill took shape in Democratic circles. It would include not just a third and even more generous round of EIPs (a second having been passed in the December 2020 Coronavirus Response and Relief Supplemental Appropriations Act), but a one-year implementation of a fully-refundable CTC with monthly advance payments. Both became law when the American Rescue Plan Act (ARPA) was signed on March 11, 2021.

Despite its over \$400 billion scope,¹² the third EIP seemed to get relatively quickly lost in the shuffle in policy circles. Instead, it was the CTC that took center stage, with many in the Administration seeing it as a potential legacy of the Biden presidency.

When it came to tax system access, the expanded CTC had two key attributes.

First, it was to be partially administered in monthly advance payments — with half of the credit being issued to taxpayers monthly between July and December 2021 (starting, that is, four short months after passage).¹³ This not only required the IRS to create monthly payment files for tens of millions of families, but also necessitated some mechanism for taxpayers to update their information or opt out of the monthly payments, if their information had changed since their last return or if they anticipated having a different tax situation for the current year.¹⁴ This was all serious and complex work, though also very much in the wheelhouse for the IRS, which was accustomed to implementing late-breaking Congressional updates to tax logic once they came down the legislative pike, especially largely back-end changes. The CTC Update Portal (CTC UP) was eventually launched in the summer, with functionality expanding over the course of the following months.¹⁵

¹¹ And particularly after the Georgia runoffs of January 5, 2020 gave Democrats a Senate majority.

¹² By July 2021, [Treasury had already disbursed nearly \\$400 billion in EIP3](#).

¹³ The rest of the credit would be claimed as a lump sum at tax time.

¹⁴ Including, for example, if they claimed children last year that a different adult in the child's life would claim this year, a common situation in practice. See [Chapter 12: dependents](#).

¹⁵ Advance payments of a credit that some taxpayers were accustomed to receiving non-refundably ought to have raised its own set of issues. Consider a taxpayer with one 10-year-old child who owes \$5,000 in total tax before the CTC. Including the credit, they owe \$3,000 in total tax — or now, with

Second, of course, the CTC was fully refundable, meaning it was available to the very same low- and zero-income households who had become newly eligible for tax benefits during the first and second rounds of EIPs, and who were struggling to access the tax system. It seemed to go without saying that the IRS would, at a minimum, continue the simplified filing reforms of 2020, allowing these very low-income families to claim the CTC (and any of the three EIPs) with a no-income return. [Revenue Procedure 2021-24](#), outlining this simplified filing process for CTC and the EIPs/RRC, was anticipated throughout the spring and [released in May](#).

But it also seemed like a natural opportunity to do more. The limitations of the Fillable Forms simplified filing product were at this point well known in policy circles, and the same civic tech movement that had been getting enthusiastic about free public tax filing for years (Section 1.1.2) was now represented in key positions throughout the new administration. [One of us argued publicly in early 2021](#) that the Administration should build a government-run version of the simplified filing tool, and slowly expand on it until it became, essentially, Direct File. (The timeline laid out in that report offers a glimpse of what could have been, with Direct File more or less fully mature before the end of Biden's first term.) The idea had been unthinkable for years, but now the FFA non-compete clause was gone, and in the form of the non-filer tool, the government finally had a tractable minimum viable product that would allow it to start delivering value immediately, without having to tackle the complexities of a full return.

Inside the administration, though, this idea was gaining basically no traction whatsoever. Probably, in small part, this was because CTC UP and advance payment administration were taking up all the bandwidth in relevant parts of the IRS. But there were much bigger contributors. Despite whatever had changed in the last years, it was still taken as a given within the IRS that the agency did not build tax filing products; it simply was not done. And if this precedent were broken, it would risk upsetting the uneasy equilibrium with FFA, which, while weakened, was far from dead. The White House and Treasury, meanwhile, might have been mildly more enthusiastic about a government-provided solution, but at this early date, they were not going to violate the traditional political independence of the IRS by trying to insist on it.

the expansion, \$2,000. The taxpayer has their withholding finely tuned so that they pay \$3,200 in taxes throughout the year and receive back a \$200 refund. Now, though, half of the expanded payment is issued in advances, so they receive \$1,500 throughout the course of 2021. They pay \$3,200 in withholding, still. But now at the end of the year they owe \$3,500 in total tax, and the \$3,200 does not cover it; they owe \$300. This situation ought to have happened fairly frequently for higher-income taxpayers whose withholding was finely tuned and took into account their expected CTC claim. The only real option for these taxpayers in 2021 was to simply unenroll from periodic payments — which many did, but naturally many also did not. We are somewhat surprised more dissatisfaction did not come to the fore when this specific set of taxpayers filed their 2021 returns in early 2022. One possible ameliorating factor was that only half of the credit was paid in advances in 2021, meaning that the increased liability at the end of the year was meaningfully offset by the expanded credit. For a child over 6, the increased liability at the end of the year was only \$500; for younger children, \$200. The situation would have been very different with a complete advance payment, or an advance without a corresponding credit increase.

This is not to say that the White House and the IRS were blind to the liability of the Fillable Forms simplified filing tool. IRS officials even floated the question of whether the FFA might improve the product, specifically adding Spanish-language functionality and support for mobile devices — though the answer came back no. The non-filer tool went on to [re-launch in mid-June 2021](#), with the user experience essentially unchanged from the year before.

1.2.2 Nonprofit civic tech steps in to launch GetCTC, demonstrating the need for a government-owned product

Still, as the spring wore on and the July launch of advance payments approached, political appointees were coming under increasing pressure — particularly from advocates — to come up with a better simplified filing solution. Eventually, White House and Treasury officials hit on an unorthodox solution: independent non-profit Code for America would build an improved simplified filing tool that the White House could promote on [ChildTaxCredit.gov](#). The plan was hatched in the late spring; GetCTC¹⁶ was [launched in beta in August](#) and [in full on September 1](#).

On its own terms, GetCTC was a success; it launched on time¹⁷ and was widely seen as solving the problems of the Fillable Forms product. Political appointees got positive feedback for its development, building something of a virtuous cycle for tax access reforms. But in a number of ways, it was clearly a half-measure, and in this way it increased the appetite inside government for building something in-house instead.

For one thing, there was the problem of how official exactly GetCTC was, and how it could be promoted. How could the government’s role in GetCTC be described? (Ultimately, lawyers settled on the middle-ground formulation “made in collaboration with the White House and U.S. Department of Treasury.”) User research had meanwhile been circulating in the administration (confirming basic common sense) that a .gov site would be more trusted than an unknown .org URL like GetCTC, and so to really drive usage, GetCTC would need to be linked from a government website. But this was a bit awkward, as the government historically did not link to specific private tax filing products. Plus there was the issue of the Fillable Forms product, which remained operative through October 15; the FFA had in a sense done the IRS the favor of providing this product, and the IRS wasn’t about to abandon that contribution and partnership. The IRS web pages on CTC and EIPs continued to point to the Fillable Forms product until it closed on October 15; the IRS pages switched to

¹⁶ Despite its name, GetCTC 2021 also allowed users to claim all three EIPs (EIP1 and EIP2 as the TY2020 Recovery Rebate Credit, and EIP3 as an advance). In 2022 it allowed users to claim EIP3. Ironically, especially in 2021, [most GetCTC users were just EIP/RRC claimants and did not, in fact, get CTC](#). This is consistent with the idea developed in [Chapter 12](#) that there are probably far fewer non-filers with children than commonly believed.

¹⁷ By launching in September, GetCTC was available in time for families to sign up for advance payments before the end of the year. No matter what month in 2021 families signed up, they received half the credit in advances. While it may have been preferable to have the product available earlier in the year, an earlier launch was never anticipated or planned given the overall timeline.

promoting GetCTC only for the final month of e-filing.¹⁸ As a result, it appears that far more taxpayers were driven to the FFA product over time than to GetCTC, especially when the IRS sent outreach letters to millions of apparent non-filers in late September pointing them to the IRS CTC and EIP web pages.

There was also the question of what would come next. In late 2021, the administration became aware that CTC expansion was not working as well in Puerto Rico, where the different tax law meant the existing simplified filing process would not work, but that far more taxpayers would benefit from a simplified process. And yet, in seeking to expand GetCTC, the administration was at the mercy of an independent non-profit, to whom it could (and, in the case of Puerto Rico, [eventually successfully did](#)) only politely recommend changes.

This all helped generate the sense within the administration that it would be better if the government were in control of its own destiny. For this big administration-wide priority, the official government solution was built by private industry with misaligned incentives and with the IRS effectively powerless to influence it; and the best workaround was hoping for progress from an independent non-profit. This did not seem like a promising posture for an administration that was staking an important part of its legacy on the accessibility of the tax system.

The entire experience also had interesting effects in the civil society space. The large coalition that had grown up to support the child allowance policies in 2019 and 2020 was now laser-focused on the tax filing reform question, and could take some credit for having pushed the government in the right direction over the course of 2021. While this did not immediately significantly influence decision-making about Direct File, which largely happened later, it did mean there was a coalition of interested advocates who could be — and were — re-engaged when Direct File became public in 2023. Without the GetCTC 2021 experience, it seems unlikely that tax filing would have been embraced as such a core principle of the center-left ecosystem two years later.

1.2.3 The CTC expansion fades — and GetCTC with it

For a moment in 2021, it seemed plausible that GetCTC would become an immediate stepping stone to Direct File, and thereby get the process moving more quickly. Even though the government had not built it, GetCTC could still serve as the minimum viable product (MVP) for a larger filing product in a broad sense. The idea of the government adopting Code for America's (open-source) codebase was discussed in early 2022. There were also discussions in late 2021 and early 2022 about expanding GetCTC from the narrow use case of zero-dollar filing; Code for America in particular [advanced a proposal to “post-populate” income so as to issue to GetCTC users any EITC they were due as well.](#)

¹⁸ The e-filing system generally closes each year in November; in 2021, it closed the week of November 15.

But in point of fact, none of this happened¹⁹ — mainly because of shifting political currents. Stakeholders inside and outside the administration were frustrated, over the course of 2021, by their collective inability to reach additional families with the CTC; the widespread impression was that there were millions of in-need families who simply were not claiming the money. In some quarters, this perceived failure began to weaken interest in the entire concept of filing reform for very low-income families. More importantly, the wind came out of the CTC expansion's sails in general. By summer and fall 2021, the full extension of the expanded CTC with advance payments increasingly seemed like it was not going to make it into the Build Back Better Act. Then, in December 2021, it seemed there was not going to be a Build Back Better Act at all. The zero-dollar CTC would be relegated to a one-year experiment, and it was becoming yesterday's news. Why would the government adopt the GetCTC codebase when it seemed like 2022 was going to be the last year for zero-income simplified filing? Besides, with the disintegration of BBB, IRS would continue to face extreme capacity constraints due to its limited funding.

So GetCTC went down as a precursor proof of concept. It had some impact in the moment, it generated [a wealth of learnings about non-filers](#), and it generated some enthusiasm inside and outside government for the idea that there ought to be a better solution. But it would take more than that enthusiasm to make Direct File a reality, a project that by this point was proceeding on a separate track.

1.3 Getting to Direct File (early 2021-late 2022) — policy process, Intuit leaving Free File, and the Inflation Reduction Act

Meanwhile, back in the late spring of 2021, a policy debate about Direct File had started in the administration in earnest. The interest was mainly circling around USDS and civic tech stakeholders in the administration; USDS had engaged with the IRS and Treasury on topics including racial equity, credit uptake, the Volunteer Income Tax Assistance (VITA) program, and ChildTaxCredit.gov starting in February 2021. These conversations would eventually, about two years later, lead to a USDS team working at the IRS on Direct File.

Throughout these conversations, stakeholders throughout the government navigated an interesting tightrope act of some relevance to future would-be reformers. On one hand, political appointees in the administration did not want to steamroll an agency (especially a traditionally non-political and semi-independent one), and wanted to be respectful of its prerogatives. On the other, there was a widespread (and probably correct) assessment that,

¹⁹ The only meaningful expansion to the simplified filing rules in 2022 was to the Puerto Rico use case ([Revenue Procedure 2022-22](#)). The 2022 Revenue Procedure for simplified filing in the 50 states and D.C. ([Revenue Procedure 2022-12](#)) did lay out a process for claiming EITC, but it was not appreciably simplified from standard filing. GetCTC [did eventually implement the EITC process in late 2022](#), but the main contribution of this implementation was [to help prove that more simplification would be needed if traditional non-filers were going to claim the EITC](#).

if the government wanted something *new and different* from the IRS, it would have to do it in a *new and different* way, probably involving a team from outside the agency. Striking this balance became central to the Direct File policy process.

Two factors helped these conversations gain momentum. First, there was the CTC experience discussed above in Section 1.2. But second, and perhaps more importantly, on July 15, 2021, [Intuit left the Free File Alliance](#), following the lead of H&R Block the year before.

1.3.1 Intuit leaves the Free File Alliance

Intuit's departure from FFA attracted only limited attention at the time, but, in retrospect, it was critical to Direct File's existence.

Despite the growing interest in government tax filing and despite the weakening of FFA since 2019, FFA's sway at the IRS in summer 2021 was still more or less unshakeable. Even USDS's limited VITA engagement had drawn consternation at the agency for straying too near the "third rail" of competing with FFA. There was the impression that any move the agency made toward filing reform would trigger companies to leave the FFA or even lead to the complete dissolution of the partnership, making the impact of any reform a net negative for access to free filing in the short term. Indeed, when Intuit did leave FFA for filing season 2022, Free File's usage dropped by about a million returns, well more than Direct File's first-year usage. It was assumed that industry would use a move like this to discredit a fledgling program. Instead, in the summer of 2021, Intuit unilaterally walked away.

This is not to say that FFA ceased to be an issue. Far from it — concerns that FFA or their allies in Congress would find ways to sabotage Direct File plans continued to be front of mind throughout the project, and greatly complicated communications about the project inside and outside the government. But, at the IRS, the project had been more or less unthinkable — until Intuit's departure.

In April 2022, when the [Government Accountability Office found that IRS's reliance on Free File was an increasing strategic risk to the agency](#), citing in particular the one million return fall in usage due to Intuit's departure, it was pouring fuel on the fire.

1.3.2 The first policy process launches and stalls (late 2021)

By late summer, USDS and the White House were engaged in a conversation about what it would look like to tackle tax filing. This crystallized finally in a memo in fall 2021 and a formal policy process that launched in November 2021. In other words, it took about eleven months, the government-wide CTC experience, and Intuit's departure from FFA for the conversation about building a tax filing product to get really serious.

But there was an important decision made at this point: the IRS was not part of the policy process, which instead consisted of OMB, NEC, USDS, and Treasury. Different participants

have different recollections of why this happened. Some recall the perception that IRS's closeness to FFA and industry would run the risk of leaking the plans to FFA, which would unleash a torrent of opposition; or, similarly, that the IRS would simply resist a whole new way of doing business. After all, some combination of those dynamics had led the IRS to more or less balk at the idea of taking bigger moves on filing reform through the CTC experience all year. Others recall that whether to pursue Direct File was considered properly a political decision, and the agency would simply be brought in when it was time to deliver. Others recall that the IRS itself reported the agency did not have the capacity or interest to be involved, especially since BBB funding had not passed.

Complicating all of this (and probably contributing to the diversity of narratives on this point) was the IRS's treatment as a semi-independent non-political agency. Treasury was seen as unable to order the IRS around, and to maintain a modicum of independence, very few people from the rest of the administration were actually in communication with the IRS.²⁰ (This dynamic would later be ameliorated by the passage of the Inflation Reduction Act, which effectively invited Treasury into the business of the IRS in a whole new way.)

The decision not to involve the IRS from the start would later have consequences, when the agency was eventually brought into the fold. But this first policy process would meet its fate much sooner over a largely unrelated issue: Congress. In late 2021, administration leaders still hoped to put the Humpty Dumpty of BBB back together, including its \$80 billion of IRS funding. These leaders were concerned that pursuing a — still politically controversial — Direct File project could derail BBB's IRS funding in Congress, a risk they were not willing to take.

The first policy process fell victim to consternation around this issue, and disbanded before the end of 2021. However, its lasting impact was to achieve consensus on three points.

First, it would be a priority to target the final filing season of Biden's first term, January to April 2024, for the full launch of Direct File (with a beta-testing period in the second half of 2023). This would necessarily mean releasing a more limited product, but USDS averred iterative releases as an implementation best practice, while political voices understood the importance of delivering something tangible to taxpayers ahead of an election, in contrast to how many of the benefits of the Affordable Care Act were not realized until Obama's second term.

Second, in order to achieve a 2024 release, a go/no go decision would be needed by principals by June 2022. Delay past that point would foreclose options to test Direct File in 2023, thus requiring both testing and public release to occur within the two-and-a-half

²⁰ The IRS's independence from the regular administration of the government dates back at least to the response to the Nixon Administration's attempts to weaponize the agency. During the Obama Administration, [the ultimately-debunked controversy over alleged IRS targeting of conservative political groups](#) strengthened Democratic administrations' commitment to the norm of leaving the IRS outside of normal politics. And the first Trump administration's trampling of traditional norms of agency independence further strengthened the Biden administration's resolve to re-introduce and respect such traditional independence.

months of filing season and reducing the number of taxpayers who would be able to use Direct File in its first year (a contingency that did ultimately come to pass).

Third, the initial version of Direct File would need to jettison hoped-for features around pre-populating taxpayers returns with IRS data. Such features were dependent on modernizing existing IRS systems, and would increase the complexity of the project and foreclose the possibility of a 2024 release. The group was convinced that even if Direct File was limited to a “filing interface,” by virtue of being authoritative, user-friendly, and above all, guaranteed free, this would provide enough taxpayer value to be a worthwhile first step, paving the path for future enhancements to include pre-population.

1.3.3 The second policy process gains steam (early 2022)

Persistent staff within the administration did not let go, and Treasury was persuaded to reanimate the conversation in early 2022, with a second policy process starting in March, with the goal of teeing up a go/no go decision by June. It had taken a little over a year from the start of the Biden Administration, but at this point, for several months from spring to summer of 2022, the process proceeded productively. The team made progress on substantive issues, and had generated a staff-level white paper by mid-May. The white paper described key factors that would influence the trajectory of Direct File, including the challenge of state taxes, the outsized impact of customer support costs on the budget at scale, and a notional approach for the initial tax scope along with rough estimates of the number of eligible taxpayers.

But it soon became clear that June would come and go without a decision, as the process remained in a wait-and-see posture with regard to IRS funding in a tax-and-climate bill built from the remains of BBB. This began to foreclose the possibility of a late-2023 beta launch. Still, seeking to preserve optionality, Treasury gave USDS the green light to build a proof of concept, resulting in a functional prototype of Direct File by July.

Then, the summer brought two big changes for Direct File.

First, in early July, Treasury brought the IRS into the process. There had still been no official decision to pursue Direct File, but, particularly with the persistence of White House officials, it was clear the conversation was not going away, and Treasury decided it was time to engage the agency. Presented with a near-fact accompli that something like Direct File would be happening, the IRS’s concerns were more muted than they might have been a year earlier, but the response was predictable: we can do it. The IRS might have been wary of the project, but if it was going to happen anyway, the agency took pride in its “you say jump, we ask how high” approach to new mandates, even while operating under immense constraints. The policy process of the last half year could hand off a short concept note to the IRS, and the agency would take it from there.

It is not that Treasury or White House officials thought that such an approach would maximize the probability of delivering a transformational product. But, to key Treasury

stakeholders, the IRS leading its own project felt like a much more “normal” state of affairs. Telling an agency that it does not get to own its flagship project because the point is to change how work gets done is a tough message to deliver, and Treasury officials seemed loath to pursue such extraordinary measures. Thus the policy process started to wrap up in late July, with the conclusion that the IRS would build a tax filing product on its own terms, leaving much of the work to date behind. The USDS team working on Direct File was disbanded.

Just then, the entire process was turned on its head yet again.

1.3.4 The IRA changes everything (July-September 2022)

Unexpectedly, on July 27, Senate leaders announced the legislative package, now rebranded the Inflation Reduction Act (IRA), was alive and well. It was signed into law less than three weeks later, with a robust \$80 billion IRS investment at its heart. It also contained a \$15 million appropriation — pushed by the Senate Finance Committee — to study the viability of a Direct File product, and report back to Congress within nine months, by May 2023.

The impact of the IRA on Direct File is complicated.

On one hand, in a literal sense, the IRA was not critical to Direct File; the project was already on track anyway, and if anything, the study language properly speaking set the policy process back, as months of study were already complete, and the team was ready to move on to delivery. Had the study implementation gone differently (as it almost did), it could have delayed Direct File delivery beyond the point of Biden’s first term. The IRA funding, meanwhile, was largely incidental to Direct File, given the relatively modest cost of the pilot.

On the other hand, the project had just been handed off to the traditional IRS way of doing business, running the risk of falling into a familiar pattern of government technology delivery — waterfall timelines, outsourced delivery, low prioritization of human-centered design — that has historically led to subpar results. Had it not been for the IRA, and the study language in particular, there might not have been any way to unwind the decision of July 2022.

But now, with a huge administration-wide investment in the IRS, the agency was swarming with Treasury staff trying to figure out how to spend the funds. Critically, too, the posture of senior Treasury staff flipped overnight. Before, some had been wary of Direct File, as it might upset the delicate balance of getting IRS funding through Congress, something they still, by the summer of 2022, hoped they might be able to do. Now, in August 2022, they had been successful, and that concern was in the past. Instead, the administration had a new political imperative: there needed to be something concrete to show the American people for all the money that had just been plowed into an admittedly unpopular agency. To some administration officials, Direct File seemed like just the thing.

If the IRS had continued with Direct File along the July 2022 status quo, the implementation would likely have been led by the IRS Chief Information Officer based on traditional government technology methodologies, with the Treasury Office of Tax Policy negotiating with IRS Chief Counsel about tax scope, and likely relatively little consideration for user experience. The study itself would probably have been farmed out via procurement, quite likely to MITRE.

Instead, the USDS team managed to get back involved with the process. The IRS official in charge of the entire taxpayer services wing of IRA implementation, who went on to become Direct File's lead in the agency, was connected to the remnants of the USDS team and found the work of the previous year compelling. In September, a decision came into focus: would Direct File be built by the USDS team coming out of the policy process, or via a more traditional IRS process led by the CIO?

Treasury made the final call, and selected the USDS path in late October, putting in place the senior leadership who would run Direct File for the next year. The team that had been disbanded in early August began being re-established now, about three months later, in early November. And the proposal was to use the study period to continue moving forward on the development of a prospective project, so as to yield a more useful study, and to leave open the option of launching the product before the end of Biden's first term. (\$15 million, after all, was a lot more than it would cost to write a study.)

So, all told, it took another year after the start of the first policy process, plus the passage of the IRA (which could have been a double-edged sword, but in practice largely was not), plus quite a bit of luck, to get a team in place to actually actively work on Direct File. It then took a little time to bring the staff back from the various other projects they had moved onto, but the Direct File team was basically back in business and working on the product starting January 2023, two years after the start of the Biden Administration. The possibility of testing Direct File in late 2023 — which had required a June 2022 go/no-go — was now basically out of the question, but the possibility of launching in 2024 was still live.

1.3.5 The dog that didn't bark: fully-automated filing

Throughout this story was the implicit or explicit concern that Direct File would become stuck in bureaucratic inertia, and would be delivered too slowly or too unambitiously, so that it would not really effect any change in the tax system. For members of the USDS team, though, there was also another concern: what if the Direct File project set out to do *too much*? Specifically, in some quarters, there were dreams of a project that would not just provide free and easy tax filing, but would eradicate returns wholesale, and usher in some world without any tax filing at all.

The implementation team felt then — and we feel now, including for reasons discussed in [Chapter 2](#) — that such an approach was fundamentally unworkable, and that a mandate to pursue it would have led to failure. But it could easily have ended up the outcome of a political policy process. We believe that the involvement of an implementation-minded team

from the very beginning was pivotal in ensuring that political expectations did not become divorced from reality.

1.4 Building Direct File, January 2023 - February 2024

1.4.1 The team builds during the IRA report period (January-May 2023)

By the beginning of 2023, there was a robust team in place, working on the report to Congress and concurrently on the product itself. By using the report period to actually do product work alongside foundational user research, the findings of the report could be much more useful — and it would leave open the option to actually put a product in front of taxpayers in filing season 2024. Danny Werfel was sworn in as IRS Commissioner in mid-March 2023; early in his tenure, he was briefed about the work of the Direct File team and made a decision to pilot Direct File after reviewing early drafts of the report.

But even as the team increasingly adopted a presumptive posture of readying a 2024 pilot, its work was kept quiet. All USDS staff were read into the effort in February 2023 as part of a recruitment push, but they were cautioned that the information was subject to a “friend-DA,” a tongue-in-cheek reference to a non-disclosure agreement. When the IRS published its [Strategic Operating Plan on the overall expenditure of the \\$80 billion in IRA funding](#), in April 2023, it contained just a single page on Direct File, essentially a placeholder pending the publication of the report. Some information was necessarily public; the IRS issued a request for proposals (RFP) that described in some detail the approach it would take to build Direct File. In the absence of a decision to pilot Direct File, the RFP’s detail was caveated as just an example of the type of support the IRS sought to implement the IRA, but the information was mostly shielded from wider attention by the obscurity of the federal procurement process.

Remaining quiet about the seriousness with which the team was taking its task had the benefit of allowing the attention of industry lobbyists to remain misdirected. Opposition during this period fixated on the alleged non-independence of the Congressionally mandated third parties working on the report (New America and Ariel Jurow-Kleiman, who were [announced in February](#)). The opponents seemingly anticipated a war of words over a piece of paper, and they hoped to preemptively characterize its authors as left-leaning hacks. They had no idea the core report would describe a working prototype and be written by the IRS itself, with the third party’s contribution relegated to an appendix. The existence of the prototype did not leak until the day before the publication of the report.

So, when Direct File delivered [the report to Congress](#) on May 16, 2023 and Treasury announced its decision to direct the IRS to pilot Direct File, the IRS’s timeline was far past where most observers had expected, and the opposition had not at all coalesced. It’s not

obvious that concerted earlier opposition could have derailed the project, but it certainly would not have helped.²¹

1.4.2 The team sprints to launch (spring 2023-early 2024)

Much could be said about the specific practices, decisions, and challenges of building the Direct File product itself. Mostly, the relevant points are documented in the open-source codebase and the appendices of the [2025 Direct File report](#). Here we highlight just a couple of points.

First, the team structure: Direct File was built using a one-team approach, with customer support included in the core team, rather than sitting on an island somewhere else in the agency. This was critical in actually providing useful customer support and in generating a tight feedback loop to make improvements in the product when it was live.

Second, the timeline: at an all-out sprint over the course of 2023, getting Direct File launched on time was a struggle, for a combination of substantive and bureaucratic reasons. Contracts for design and engineering were awarded in late May; the formal kickoff with IT and the contractors happened in late June. A notional tax scope for 2024 had been set in the spring, but by the summer it was already appearing ambitious. With the forcing function of a Paperwork Reduction Act public comment period, the Child and Dependent Care Credit was cut from scope in August, finalizing year-one scope. Throughout the fall, there were challenges getting the product deployed on IRS infrastructure, and there was a period in early fall where it seemed the state API, in particular, would not be able to be successfully deployed at all. The details of the pilot were scheduled to be announced in September; with the various technology challenges, the announcement was pushed back to October 17. The product ultimately got a conditional authority to operate (ATO) in late October, with state API testing starting shortly thereafter. By November, the decision was made that Direct File's launch would not be tied to the beginning of the filing season. The product's full ATO came on January 23, 2024, and Direct File passed e-file testing on January 30, 2024, filing its first real tax return on February 1, just four days into filing season.

A similar story played out in at least some of the companion state filing software teams.

It was the 'failure is not an option' attitude within the IRS (and partners) that kept Direct File on track to launch in 2024. It is not hard to picture that, if the timeline had not been so do-or-die, there would have been delays.

²¹ One other aside is in order about the pilot period: it was in a user research session in March 2023, asking a taxpayer about the idea of the IRS delivering the tax filing product and showing the taxpayer the IRS logo, that the participant: "Why is the IRS logo a flamingo and a fern?" The flamingo and fern went on to become the unofficial mascot of Direct File.

1.4.3 Year-one states sign on (summer 2023)

One of the big question marks in Direct File, dating back to the beginning of the policy conversations, was how the product would support state taxes — if it supported them at all. (This policy debate per se is discussed in more detail in [Chapter 4](#).) The idea of supporting them directly in the product was rejected early on. Not supporting states at all was certainly on the table, and indeed nearly came to pass a couple times, but it would have been a significant substantive and political liability for the new product.

Instead, as early as the summer 2022 policy process, momentum was building for the solution Direct File would ultimately employ: a data sharing API allowing taxpayers to export their Direct File data to a standalone state solution.

The big problem with this approach is that states would have to play a large role, actually providing their own filing products, and they would have to be brought on board incredibly quickly. In the absence of a decision to pilot, states and partners could not be engaged apart from a high-level discussion of hypotheticals, which was insufficient to secure budgets and other commitments. Reflecting the third party's awareness of the team's plans, the API approach was outlined in passing in the appendix of the May 2023 report to Congress, but it was omitted from the main substance of the report. State tax departments did not really hear about Direct File's intentions for states until mid-June 2023, when the Direct File team attended the Federation of Tax Administrators (FTA) Annual Meeting and met with state officials and software providers. From states' perspective, this was very late to be talking about big plans for the coming filing season, and the idea that Direct File would actually launch in seven months was received in many quarters with skepticism.

But there were a few things working in Direct File's favor. First, as discussed in [Chapter 4](#), nearly half of state tax departments already had state-level Direct File tools run by a single vendor, FAST Enterprises, which had long supported more public tax filing options, and was amenable to integrating their product with Direct File by January if any of their many states would sign on. Second, Code for America was still kicking around the tax filing space, with spare capacity after the demise of GetCTC, and had been tracking the state filing debates of the previous year. Code for America had quickly pledged to support state filing for the pilot year of Direct File, and was actively recruiting state partners that it would support pro bono. Finally, there was years of pent-up support for a Direct File project among some state officials, who had been waiting for such an opportunity to come along.

It was widely misreported later in 2023 that the IRS had selected states for the pilot. Instead, the invitation was opened to any state who would be able to join in time, and the participating states were those who signed up.

With some luck, a trio of states signed up over the summer to pilot the integrated state filing approach in 2024. New York had been a longtime enthusiast of a Direct File type project, and even attempted to build its own tax filing solution a decade earlier but was stymied by federal inaction; New York leadership was ready to jump at the chance to lead on

the issue, and opted to move forward with the Code for America solution. Massachusetts, notably home to Senator Elizabeth Warren, the principal Congressional leader on the issue, opted to adapt their FAST product for Direct File. In Arizona, a new Democratic administration was eager to deliver new common sense policy wins and also opted to move forward with Code for America. On top of those three, California had long been a leader on tax filing, since the ReadyReturn pilot of 2009 and the establishment of the state-run tax filing software CalFile. The tax department was not ready to integrate CalFile with Direct File by January 2024, but they did not want to be left out, and joined as an “unintegrated” state; taxpayers would use Direct File and then be redirected to CalFile, without their data following them. The user experience downsides of this approach would be partially mitigated by CalFile’s support for some pre-population using state data.

The states joined over the summer and were announced in October. It was good for Direct File that ultimately three states with two different technology implementations had signed up, because the safety in (modest) numbers kept any state from losing its nerve as the project hit some tight deadlines around the new year.

1.4.4 Outside support begins to organize

Just as a lack of visibility into the seriousness of the team’s work in early 2023 prevented industry and its allies from organizing their opposition, it also got in the way of Direct File’s allies organizing their support.

That said, significantly thanks to the CTC experience of 2021, some of the outside organizations were tracking the issue closely and were able to respond quickly. In April, ahead of the report’s release, a group of organizations from the child allowance advocacy movement [wrote to the new Commissioner](#), asking him to prioritize reforms to ease tax filing in his new role. The groups were ready to support the coming project shortly after the report to Congress came out. The [Coalition for Free and Fair Filing was formally launched](#) a month after the pilot announcement. A [support letter signed by over 200 organizations](#) and [another support letter signed by over 100 tax system academics and experts](#) soon followed. The group would continue to help organize grassroots support in outreach and back efforts to organize support in Congress.

As with the opposition, it is not obvious exactly what would have happened to Direct File without this organized support, but the support certainly did not hurt.

1.4.5 Direct File and VITA co-exist

One other subplot in this era was the connection between Direct File and VITA, which had been — at least de facto — the premier free tax filing option in local communities for decades. As with every other stakeholder, Direct File had not engaged with the VITA field or program office during the report period, and in fall 2023, as talk of the upcoming pilot launch was getting louder, most VITA sites still had no idea if or how they would interact with the program. Though VITA certainly supported free tax prep options, VITA programs

have an understandable inclination toward full-service options, and there was no guarantee the programs would support a DIY self-help product off the bat. In the worst case scenario, some Direct File stakeholders were concerned that an ambivalent and alienated VITA could see Direct File as a threat rather than a complement to their services, and would oppose the program in practice — which could be especially damaging given the political credibility of VITA programs in the space.²²

The best solution would be if Direct File could develop some kind of formal collaboration with VITA. As discussed in more detail in [Section 13.5](#), most VITA sites optimize almost entirely for the total number of returns they prepare, a principal outcome metric for their grants. It was widely understood that VITA sites would be more likely to join the Direct File movement if they could be given credit toward their grant metrics for Direct File referrals, the same way they received credit for referring taxpayers to the facilitated self-assistance (FSA) software provided by TaxSlayer under its contract with VITA. But Direct File, especially in year one, had no method to help VITA sites count their Direct File referrals, and there was never more than gestural guidance encouraging sites to support the program. (The same pattern would more or less repeat itself in year two, though for different reasons.)

Ultimately, some VITA sites were very supportive, but most took a hands-off approach to the Direct File movement. But there was also no meaningful opposition, and so in the end VITA writ large was of relatively little import to the Direct File pilot in general, rather than bolstering or hindering it.

1.5 The Pilot era, 2024

As the rubber prepared to meet the road in early 2024, the rushed timelines of the project (critically, the lack of the originally planned 2023 testing period) and the agile methodology of the teams began to run into cultural conflict with external stakeholders, and the timeline of getting Direct File fully tested and launched in February and March was admittedly tense.

Direct File, correcting for the mistakes of big civic technology launches past, and in particular recalling the overwhelming demand for past government digital services upon launch, took a cautious and agile approach to setting the pilot timeline. There would be Phase A, with use by IRS (and participating state tax department) volunteers; Phase B, in which Direct File would be used by selected outside volunteers, whose emails would be put on an allow-list to access the site; Phase C, with unannounced periods of public availability; Phase D, with full availability but subject to closure in case of issues; and Phase E, fully open. None of the phases were given dates, since graduating to the next phase would be based on successfully clearing the previous one. (More on this in [Direct File's 2024 report](#).)

²² There was [some effort in the Direct File-aligned community over the summer](#) to paint a more productive picture of Direct File in the VITA landscape.

Externally, the entire plan was received with some misgivings. Community partners wanted to help make the pilot a success, but recruiting individual taxpayers and submitting their emails to the IRS for some future filing period, the timing of which was not yet known, proved an uncomfortable task in practice. Meanwhile, the entirely unknown launch dates stymied efforts to recruit other organizations to do outreach, especially since most partners who would consider doing tax season outreach were not interested in changing their pitches over the course of the season. This entire dynamic was mirrored in some of the partner states, who misunderstood the undefined rollout schedule not as prudence but as stonewalling and unpreparedness. This all lowered the amount of outreach and promotion that some outside partners provided — although, as the following year showed, it is not obvious how much the limited outreach dampened 2024 usage.

Meanwhile, on the other hand, the caution was, at least in part, warranted. The IRS has no ability for tech teams to test software in production environments, and given that there is some daylight between testing and production environments, this raises the possibility of issues upon pushing to production. When the first users in Phase A used Direct File on February 1, and Direct File with state support on February 9, they were individual users being accompanied live by a support team to identify and resolve any issues. There were, indeed, showstopper issues that prevented users from filing returns — which only did not become public relations fiascos because there were single-digit numbers of users at the time, all well aware of the situation. Phase A worked as designed — though future teams would be well-advised to keep in mind that only a tiny fraction of signed-up volunteers will actually use a product exactly when the testing phase opens.

The following phases, though, had to be adjusted. After the awkward reception from external partners, Phase B — the external allow-list — was dropped entirely. In Phase C, unannounced periods of public availability, which began on February 22, far fewer taxpayers came in the door during the available periods than were expected, and trying to dial in just the right amount of public cheerleading when the door did open became a challenging dance. By early March it was clear Direct File would simply have to be opened to the public. Full availability began on March 8, a few days ahead of what had begun to be socialized as a formal March 12 launch.

One should be careful not to overlearn the lessons of this experience in any particular direction. On one hand, the cautious approach was warranted, and a wholesale public launch without individual testing would have created a potentially very bad news cycle for Direct File, which it may not have survived. On the other hand, some of the pilot phases ultimately proved unworkable, and the cultural tensions over announcements of dates probably dampened outreach and usage in year one. There might be ways to better balance the needs of agile tech teams with the realities of a national product launch. On a third hand, though, it was a mad sprint to launch and there was no time to reflect on some of these finer points. Probably the main lesson to be drawn from all this is that being forced to launch at the height of tax season during a do-or-die last year of a presidential term is challenging. Far easier, as originally discussed back in December 2021, to launch in the

period after April 15, with lower volumes and less time crunch, and be battle-tested by the time of the tax season launch the following year.

Outwardly, though, and mercifully, probably very little of any of this registered in the broader discourse. From the public's perspective, Direct File launched in early March. It enjoyed positive press coverage from the start, and accelerated exponentially in usage throughout the following five weeks or so until April 15. The exponential growth was in part a function of the overall growth of tax filing over the period of early March to mid-April, though Direct File's growth in use outpaced that trend. By the time the pilot closed in mid-April, there were 140,000 successful Direct File users and few meaningful issues with the product. As late April rolled around, stakeholders inside and outside the government — even and especially those who had been skeptical this entire time — began to see the project quite favorably.

1.6 “Permanence” and expansion, 2024

By the close of the 2024 tax filing season, it became clear throughout policy circles that the Direct File pilot would be seen as a big success. For the first time in a long time, a major federal technology product had been launched without big, news-making hitches, and in fact taxpayers who used Direct File generally loved it. The tax access movement that had gathered steam around CTC was enthused now to support Direct File (and probably happy to have something to champion again). The biggest looming liability in the early spring had been usage; what if Direct File didn't even clear the relatively modest-seeming goal of 100,000 returns in year one? But it did.

By the time it was announced on May 30, 2024 that Direct File would be made “permanent” (permanence that would, incidentally last less time than the project had existed to date), stakeholders inside and outside of government who had either not cared about the project, or decided not to take a position until they saw more evidence, were ready to get on board.

Direct File seemed now to be part of the good-government conventional wisdom of center-left Washington, and a core piece of taxpayer service for states. The newfound enthusiasm came from all quarters — from members of Congress; from the old guard of the IRS; from states; from members of the administration. This last bit was especially relevant as Direct File went into its critical period of state recruitment over the summer of 2024. There were two possible margins for Direct File expansion — tax scope and states — and it was on the latter point that senior leaders in Treasury and the White House could play the largest role. Treasury and the White House began wooing Governors' Offices aggressively, encouraging them to sign up for 2025. Notably, cognizant of the politics of the situation, they opted only to woo Democratic governors. (Recruitment of tax departments themselves was left to the IRS team, which sought to be more of an impartial honest broker than salesman to states.)

State tax departments, who had largely adopted a wait-and-see approach in earlier 2024, largely now began to see Direct File as something of an inevitability for them, and many

were downright enthusiastic. Timelines were still tricky, though. As with year one, states were effectively learning of Direct File's coming season in early June (with no official word about Direct File's future until the announcement of permanence on May 30, and most communications to states coming at FTA conferences the following weeks), which they again felt was quite late in the game for large new initiatives in the coming filing season. For most states, it was a question of whether to scramble to be ready for January 2025, or give it another year or two and join at their leisure.

More members of Congress, meanwhile, were now excited to get involved. The [May 2024 Direct File Congressional support letter](#) now attracted over 130 signatures, [up from 99 the previous June](#). Some members of Congress also got involved in efforts to recruit their home states, and some floated legislation that would help accelerate Direct File expansion, though it would have had little chance of passing a Republican-controlled House. Some members of Congress also joined with senior members of the administration in pushing for more and faster growth in tax scope.

Support was also growing apace in the civil society space, and the Coalition for Free and Fair Filing's [May 2024 support letter attracted over 250 signatures](#), up from about 200 the year before. What role the Coalition could actually play in this period, though, was sometimes less clear. Coalition organizers had pursued the notion that grassroots support in states would help convince state tax departments to join Direct File in 2025, although in practice this support ended up having relatively little influence in most states' decision-making. Some Coalition members, like members of Congress and administration officials, made efforts to push for faster delivery of expanded tax scope. (Americans abroad and 1099 gig economy income were two frequent requests, neither of which would ultimately be close to feasible for filing season 2025, whose scope had basically been set back in the spring, and would be trimmed back, not expanded, as time went on.)

But the feeling of the inevitable tide of success did not in any way slow down opposition efforts from the tax prep industry and its allies. Republican members of Congress continued to rail against the project; not one came around to supporting it in this period. At tax administration conferences throughout spring and summer 2024, tax industry representatives loudly and outspokenly denounced Direct File. The FFA continued to threaten actual and potential state participants that joining Direct File might mean turning off state taxpayers' access to free options through FFA. In an especially damaging move, the opposition [organized a group of thirteen state Attorneys General \(two of them, incongruously, from states without any income tax\) to publicly oppose Direct File in January 2024](#).

This last dynamic, coupled with the Administration's aggressive recruitment of blue states, exacerbated a partisan divide throughout the summer of 2024; blue state tax departments were being widely pressed to join Direct File, while red state tax departments received far less pressure to join, and indeed were often pressured to stay out. Ultimately, only one new 2025 state had a Republican governor (Idaho), and one other was in a clear cultural sense a "red" state (Kansas). (More on the state recruitment efforts in [Chapter 4](#).) This generated

the impression of a much starker partisan divide in state tax departments than actually existed.

With these conflicting currents, and with the now loud policy clamoring coming from various angles in Washington, the year two work was at times more complicated and more political than year one's. But none of this was really an issue in a practical sense. Within a year or two, Direct File would have simmered farther back into the policy background, and the chaotic whiplash of the first two years — first no attention, then a surfeit of it — would recede into the past.

Throughout the late summer and fall, the machine chugged along: 13 new states were lined up to join Direct File. Scope would expand to retirement income, Child and Dependent Care Credit, and additional interest income. Data import — that is, several new elements of pre-population — were teed up to launch in 2025. During this period too, USDS staff on Direct File were gradually hired into IRS directly, so that by the start of the 2025 filing season, it was IRS staff working on an IRS project. Things were proceeding well and growing rapidly.

1.7 Collapse, 2025

But, of course, they did not continue going this way, because on November 5, Democrats lost the White House and both chambers of Congress.

Those of us working on the project had been asked over time about election contingencies. We tended to argue that Direct File need not be a partisan program, though clearly in Washington it continued to scan as one, and it was clear an electoral loss would be a serious threat for a not-yet-entrenched program. A solid Republican trifecta almost certainly spelled Direct File's demise, and it thus was a contingency not worth planning for. The idea was to invest in the project and hope for enough political maneuverability to become an established function of the IRS.

As noted above, despite the gathering momentum in nearly every direction, one place Direct File had made no appreciable progress was on the right. A variety of Republican-led states had expressed interest in joining Direct File, and one (Idaho) did for 2025; several adopted a posture of waiting until after the election year. But in Congress this interest counted for very little. Those of us working on the project were confident from the day after the election that the tax preparation industry, having failed to stop Direct File once, would not miss their second chance.

The gloomy outlook for Direct File did have one positive effect, which was that it prompted the team to sprint faster than previously planned on pre-population, since this could well be the last opportunity to deliver that functionality, at least for now.

Following the transition, the White House and the IRS more or less abandoned plans to promote the product and let it be widely believed during the filing season that the product

had been canceled, which predictably depressed usage (see [Chapter 6](#)). The administration also generated ample chaos at the IRS, which would see [six commissioners in its first five months](#), and within civic tech teams across the government, with its immediate elimination of the U.S. Digital Service (converted into Elon Musk's DOGE) in January 2025, and its elimination of 18F shortly thereafter. Neither of the civic tech moves directly impacted Direct File, which at this point was largely an IRS team, but it hit hard for team members who were alumni of the tech teams and still maintained close relationships. With everything in the federal government on uncertain footing, to put it mildly, Direct File's ability to grow and thrive was significantly curtailed.

As DOGE rampaged across the government in its early months, there were occasional news reports that they would save, or at least co-opt, Direct File, something that nominally aligned with their goals. DOGE and Direct File leaders indeed briefly discussed the idea. But ultimately the more predictable outcome prevailed. The administration was trying to cut government in general, and the IRS in particular, and a new discretionary project that positioned the IRS as helpful and productive was not in the game plan. In March, the administration gave the direction to stop working on Direct File, news that became public after the close of the filing season. Shortly thereafter, a majority of the Direct File team left the government.

That was effectively the end of the program, though it would take several more months for the formal end to come, during which time Direct File remained open, processing tax returns. Republicans in Congress [attempted to formally kill off Direct File in H.R. 1 in the spring](#), but the language was removed for violating the Byrd rule and thus being ineligible for a reconciliation package. Instead, initiating the IRA, H.R. 1 included language asking the IRS to study a Direct File replacement and report back in three months. When [that report](#) was released in fall 2025,²³ it contained language suggesting Direct File would be discontinued — though even then, the IRS did not explicitly announce the end of Direct File. The closest thing to an official announcement came finally in early November, when the (remnants of the) Direct File team [notified erstwhile partner states](#) that the product would not be available in 2026.

1.8 Non-Direct File SOP reforms

To this point, we have of course been discussing only Direct File. But, while it is not the focus of this report, there is in all this the question of other tax system reforms. After all, though easy and free filing was the keystone component of reformers' wishlist, it wasn't the only item on it, and it was not the only transformation pursued during the IRA modernization push.

²³ The report was apparently completed on October 2, but not released until later, due to the government shutdown.

Ultimately, while we do not attempt a thorough accounting of the other tax reform pushes in this period, we think it is important to keep in mind that Direct File's lack of staying power was not unique to Direct File.

When the [IRS Strategic Operating Plan](#) was released in April 2023, it contained a range of items that access reformers inside and outside the government had sought as part of the Biden Administration IRS agenda: improving notices to taxpayers, proactive alerts, engaging non-filers, ensuring taxpayers receive all credits they are eligible for, better data on gaps in the system, digitizing communications and forms, faster multi-modal customer service, year-round self-service tools, access to IRS-held data, etc.

The SOP implementation came with a surge in Treasury attention and staffing, and a surge in resources in the types of areas where agencies can quickly spend money — most particularly hiring call center staff, so that the call answer rate shot up overnight from 2022 to 2023. Some promising initiatives got off the ground (some notices were redefined, some new studies about credit gaps came out), and probably some would, given more time, have taken root. On the compliance side, it appears change was indeed meaningfully underway, with the agency actually staffing up to start going after complex cases of tax evasion — progress that was lost only because the change in administrations interrupted it.

But it is not clear to us that the \$80 billion investment was really on track to deliver transformative change to the taxpayer experience and for tax system access. There did not seem to be a large-scale culture shift underway; big systems and big processes did not seem to be slated for overhaul or reimagination. (And this is not to sugarcoat the Direct File experience either; Direct File succeeded by limiting its transformational ambition and starting up on an island within the IRS, and was shut down again before there was time to scale the product or look at sharing that expertise with the rest of the agency.)

In 2023-2024, for example, outside reformers were still advocating for a variety of non-Direct File measures to improve tax access: clear data on the size and shape of the non-filer gap; better IRS-hosted wayfinding between different filing options; expedited processes to resolve conflicting family claims; enhancements to the CP-09 and CP-27²⁴; expanded and improved ID verification options for users of IRS systems; direct IRS outreach to engage non-filers; and VITA modernizations, for example. While reformers made some headway, we are generally not aware of large-scale persistent changes across most of these issues.

One possible interpretation is that this is all a function of timing. If the IRS strategic overhaul had started a year earlier, perhaps, there would have been time for more to take shape and take root — or, perhaps, the stronger momentum and focus of an early presidential administration would have made things move faster. But even then, future reformers should take a note of caution from the whole experience. While BBB was expected to pass earlier than the IRA did, the IRA did come only 19 months into a four-year

²⁴ These are forms the IRS sends to tax filers who appear eligible for but do not claim the EITC, providing a streamlined method to claim it.

term. Government reformers seeking to make change in the unpredictable world of federal policy may need to find ways to move faster and more convincingly if their efforts are to stick.

Part 2: Building Direct File: Policy and Strategy

2. Direct File and data import / pre-population

Gabriel Zucker, Chris Given

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Summary

- Expanding *pre-population* — the use of IRS data to streamline the tax filing process — has the potential to make tax filing quick, easy, and painless; it would end tax filing as we know it. (2.1.1)
- Within the confines of the existing U.S. tax system, though, we cannot eradicate tax returns altogether. Attempting to do so would, in fact, likely hurt the taxpayers we are trying to help. The most automated tax system we can achieve is a Direct File-like product with maximum pre-population, and reformers should keep energy

on that track, rather than attempting to build a parallel and more-automated track. (2.1.2)

- Maximizing pre-population in Direct File will require technical improvements in the timing and processing of third-party information returns. (2.2.1)
- It will also require using data from a number of other data sources (2.2.2-2.2.5), though perhaps not from state tax departments (2.2.6).
- Next steps and recommendations:
 - Direct File should continue to expand pre-population to include more data sources and data items, remembering that delivering pre-population is an iterative process. (2.4.1)
 - Direct File may have to reimagine the connection of pre-population to the taxpayer experience, to achieve the full promise of the functionality. (2.4.2)
 - Direct File should work with state partners to explore the pre-population of state tax department data, though it is possible the effort required will not be worth it. (2.4.3)
 - A variety of improvements will be needed to ensure the sufficiency of third-party information return data, including retrieving and storing W-2 Boxes 12-20 data, and changing reporting deadlines for various Forms 1099 (which will likely require statutory changes to 26 USC 6071). (2.4.4)

This chapter explores the past and potential future of *data import* or *pre-population* in Direct File — the use of IRS data to transform the filing process.

Section 2.1 lays out the importance of this topic to the project of Direct File, explores the conceptual limits of what is possible in the U.S. tax system, and defines terms. Section 2.2 explores pre-population data elements source by source, exploring specific challenges and deficiencies in the available data. Section 2.3 provides an overview of relevant Direct File functionality built to date. Section 2.4 recommends next steps.

2.1 Conceptual framework and ‘return-free filing’

2.1.1 The importance of pre-population and the goals of Direct File

Of Direct File’s various benefits, the element that has arguably most inspired filing reform advocates is its ability to streamline the filing process by using data the IRS already has.

In part, pre-population’s appeal is rooted in simple common sense. Taxpayers know that their data is reported to the IRS, so much so that if they make a mistake on their return, the IRS very well may notice, correct it, and even impose consequences. If the IRS already has

the answers to this particular test, taxpayers say, why is it making us guess?²⁵ **Using IRS data to streamline return filing would remove the exasperation from tax filing and alter taxpayers' impression that the IRS is trying to make life harder instead of easier.**

“Using IRS data to streamline or automate tax returns is therefore critical to closing the tax benefits gap.”

But the appeal is also motivated by the persistent tax benefits access gap. While some commonly-cited figures may be overestimates (see Chapters [12](#) on dependent rules and [14](#) on non-filers), there are millions of households a year who leave billions of dollars in tax benefits on the table because they do not file returns. The [unambiguous lesson of “simplified filing” via GetCTC in 2021 and 2022](#) is that a filing product that does not require taxpayers to transcribe their tax documents or answer

esoteric tax questions is the most powerful way to break down barriers for this population. **Using IRS data to streamline or automate tax returns is therefore critical to closing the tax benefits gap, unlocking billions in unclaimed benefits for those Americans who need them most.**

Direct File began to implement pre-population via prior-year-AGI import in 2024 and added several more pieces of pre-population in 2025, including W-2 import. As pre-population expanded, it would have come to include more data sources, and the filing experience would have been rebuilt around that data. This means not simply piping text into some fields and skipping over the occasional page, but actually designing an experience that draws powerful conclusions from the data that exists, and allows many taxpayers to move through the filing process incredibly quickly.

We believe the impact for the perception and reality of tax filing would be immense. Gone would be the days when even relatively simple returns can take hours to complete, when tracking down and collating W-2s and 1099s is a weeklong chore, where even conscientious taxpayers live with the nagging suspicion they forgot something and may get in trouble. Gone would be the days of manually transcribing esoteric minutiae and wondering which details are really relevant to feed into the black box that is filing software. **Tax filing would be quick, painless, and easy. We would indeed have ended tax filing as we know it.**

²⁵ In the words of the May 2023 Direct File Report to Congress: “Some interviewed taxpayers know that tax forms such as the W-2 and 1099s are sent to both them and IRS. Some expressed a preference for this data to be used to streamline the experience of an IRS-provided tool. After using the functioning internal Direct File prototype without this capability in a user research interview, one interviewed taxpayer said, ‘IRS already knows your tax information. So why wouldn’t I be able to login, put in, say, my [SSN], and then half this information is already filled, and then I just need to put in corrections, you know?’”

2.1.2 Return-free filing as the endpoint of Direct File, not a separate project

At the same time, it is critical to understand the constraints of automation and pre-population — due not simply to imperfect IRS systems, but to the nature of the U.S. tax law. **In short, absent a wholesale reimagining of federal and state/local tax law in the United States, eradicating tax returns altogether, or creating a system where filing is generally as simple as answering a text message (a common refrain in some policy circles) is basically impossible.^{26,27} But we can — and should — use Direct File to iteratively make filing easier and easier, until it has ended tax filing as we know it. Insofar as advocates or policymakers want to achieve “return-free filing,” the way to do so is to keep pushing Direct File farther.**

Advocates often point to precedents in other countries, where tax filing effectively does not exist. But, unlike those foreign tax codes, the U.S. tax system requires taxpayers to provide information that tax agencies do not have and are in no position to get. The IRS in particular and the U.S. government in general do not categorically know about your child care expenses,²⁸ changes in your family structure or marital status, where you lived for how many months, and much more. Even if the IRS used data from every government agency to prepare the most precise possible return for you, your calculated refund could easily be far too large or too small. Here are just a few examples of situations where automatically issuing a return without taxpayer involvement could cause taxpayers to *overpay* their taxes:

- Last tax year, you took in your sister’s son, living with him for most of the year and becoming his primary caregiver. You are now eligible for Head of Household filing status, for the Child Tax Credit, and for the Earned Income Tax Credit with children. The government does not know about this new child in your household, and would calculate your taxes incorrectly by potentially many thousands of dollars.
- Last tax year, you and your children moved out of your parents’ home, where you had been living, and where the kids’ grandparents paid the basic household expenses. You are now eligible to claim Head of Household filing status, drastically changing many aspects of your tax return, and potentially increasing your refund by over \$1,000.
- Last tax year, you began taking postsecondary courses at a local community college, but due to one of the exceptions, the school does not issue you Form 1098-T. You are

²⁶ We do envision potentially using such nearly-automated returns in specific corners of the tax system, for limited populations and use cases. More on this in [Section 14.3.3](#).

²⁷ We are far from the first to argue this case. A 2003 Treasury report provocatively entitled [Return-Free Tax Systems: Simplification is a Prerequisite](#) explores similar dynamics and reaches similar conclusions.

²⁸ The brief period when the Child and Dependent Care Tax Credit became refundable under the American Rescue Plan Act led to a Green Book recommendation to introduce information returns for child care payments. One of us provided technical assistance during the period when the Build Back Better Act contemplated extending the refundability provision, and, leveraging recent first-hand experience with child care providers and data systems, argued strenuously that the introduction of an information return requirement would be disruptive, costly, and politically disastrous.

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now eligible for \$2,500 from the American Opportunity Tax Credit that the government does not know about.

- Last tax year, you started looking for work, and began paying your neighbor to watch your kids during the day. You are eligible for potentially thousands of dollars from the Child and Dependent Care Tax Credit.
- You have three children, and last tax year, you earned \$15,000 in W-2 income, but also \$300 in gig economy income not reported on any 1099 forms.²⁹ Ignorant of this income, the government would underestimate your EITC by \$135.
- Last tax year, you moved from Nebraska across the border to Colorado in February. As a Colorado resident for 11 months, you are eligible for a 50% EITC match from the state for 11 months, potentially coming to over \$3,000. Neither the IRS nor state departments of revenue know when, or even that, you moved.
- You are an undocumented immigrant and held a W-2 job using an incorrect Social Security Number. The tax agencies do not have correct information on who you are in order to issue the appropriate refund.
- *(In New Jersey, or states with analogous programs)* Last tax year, you moved from campus housing (which is not subject to property tax) into a rented home where you pay \$20,000 in rent. You are newly eligible for a \$3,600 property tax deduction, which could save you hundreds of dollars in taxes.³⁰
- You just made a contribution to an IRA, which allows you to take a deduction on your federal taxes. Because you just made the contribution, it has not yet been reported to the IRS on Form 5498. An automated tax return would not contain this deduction, causing you to overpay your taxes by perhaps hundreds of dollars.

These examples are limited only to cases where the missing data causes the taxpayer to receive too *small* a refund; there are also plenty of other cases where a taxpayer would underpay their tax.

And this is to say nothing of issues caused by late or erroneous 1099s or W-2s. Suppose the IRS automatically issues you an accurate refund — except it calculates the refund on April 1 without taking into account a 1099-INT reporting \$8,000 of interest, which ultimately was reported to the agency late, on April 20. Now, a few weeks later, the IRS must come back and explain, unfortunately, you owe \$1,000 in taxes on that additional income.

In response to these challenges, advocates and policymakers sometimes raise a few rebuttals:

- *If we can't build return-free filing within the confines of the tax law, we should change the tax law.* Fundamentally rewriting the tax law might indeed make it possible to fully automate tax returns. But it should not be underestimated just how drastic such a rewrite would have to be. Taxes would likely have to be levied at the level of the

²⁹ \$300 is below the threshold at which payers are required to issue a 1099.

³⁰ This example is calculated using New Jersey's Property Tax Credit/Deduction, but similar dynamics apply in a number of states.

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individual rather than the family, to reduce the impact of unobservable family structure changes on deductions and rate calculations.³¹ The reforms would also probably require dismantling dozens or even hundreds of federal and state provisions most reform advocates support — and these sweeping changes would be required not only at the federal level but in all 42 income-tax states. To call this a daunting legislative agenda would be a wild understatement, and it could easily do more harm than good for the average American.

- *If there is data we do not currently have, we should improve reporting so that we do get it.* Tax agencies should certainly look at ways to expand reporting, so as to make life easier for taxpayers. But advocates should be clear-eyed about the monumental expansion of reporting required to fully automate tax returns. Considering only some of the examples above, full automation would require wholesale reporting of household rent paid, small-scale child care arrangements, family relationships and residency, immigration status, and much more, to federal and state authorities — and the removal of all exceptions under current requirements. This would not only be a serious technical challenge, requiring first-priority status within the federal and state tax agencies, but would massively change Americans' expectations and experience of privacy. Even the most pro-government enthusiasts might well have concerns about what a government with such unbridled access to Americans' information could do with that data.
- *Even if we can't automate everyone's returns, we should automate returns for those taxpayers whose returns we can automate.* Advocates may then concede that there will remain some data that some taxpayers must provide — but there will also be some taxpayers for whom no special cases apply, and the government could do away with tax filing *for those taxpayers*. In 2023, [Goodman et al](#) published a paper estimating that the IRS could fully accurately pre-populate a return for 40% of the population — why not, then, at least automate those 40% of returns? The trouble is: *who those taxpayers are* is the precise thing the government does not know. The government does not know which taxpayers have education expenses, family structure changes, or moves across state lines that they need to report. Indeed, if the government knew these things, then we would not be here discussing what to do about taxpayers with unknown education expenses, family structure changes, or cross-state moves. In other words, the authors do not find that the IRS can fully automate returns for 40% of taxpayers; they find that, if the government fully automated *all* returns, they would be right 40% of the time. What the government *could* do is marshal the information it has, and then confirm the taxpayer does not have information to edit or add. In so doing, taxpayers would be advised they should *not* accept the government's best-guess data if it's wrong. And, if taxpayers *do* have additional information, the process would not kick them out of this “automated

³¹ U.K. taxes, for example, are levied on the individual rather than the family, allowing for much greater automation. But U.S. taxes are imposed at the level of a tax unit, whose definition is driven by marriages, residence, and relationships, all of which are not observable by the government. The tax unit definition drives the deductions allowed, the tax rates imposed, and often the calculation of various credits and other provisions.

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return” pathway, but rather allow them to *add that information*, taking advantage of the other automated data.

But this functionality — the government providing as much information as possible and requiring a taxpayer to go through and add/edit where needed — should sound familiar: it is precisely the endgame of Direct File we already described in the previous section.

There is no meaningful difference between asking a taxpayer to review their fully automated return on one hand and asking them to prepare a Direct File return with heavy pre-population on the other. **These are one and the same product.**

And this is the principal insight we hope policymakers and advocates of all stripes can take away from this discussion: **no matter whether you are a maximalist enthusiast of return-free filing, or a skeptic of any such reform, the path forward is to include as much automation in Direct File as possible, rather than building a parallel and more-automated filing pathway.**

- For advocates of simplified filing, who want to end filing as we know it: building a separate fully-automated filing product only for taxpayers without data to add/edit will just create a new headache when filers must determine which product to use, and will likely lead many to leave money on the table when they pick the wrong one. Advancing pre-population in the context of Direct File avoids these outcomes.
- For skeptics, who are concerned pre-population might engender tax noncompliance: advancing pre-population in the context of Direct File is the best way to ensure that pre-population is used in an environment where taxpayers can maximally understand what is being pre-populated and why, and understand their responsibilities to update incomplete or incorrect information.
- For technocrats concerned about the availability of information return data: advancing pre-population in the context of Direct File means that data availability can be treated iteratively. There is no need to wait until *all* of the data is available; we do not need to wait until we reach the ever-elusive world that a return can be automated wholesale. Direct File can simply be made available with the data that exists, and the user experience can improve over time as more data becomes available earlier in the year.

A few important points follow from this exercise:

- The outright eradication of tax returns is not possible without drastic changes to current tax law and the government ecosystem of the contemporary United States.
- To the degree it is possible to get closer to this goal of eradicating tax returns, the way to do it is by iteratively building on the automation and pre-population in Direct File. How far we can get toward the asymptotic goal of eradicating tax returns is not a question that has to be addressed up front; it is a boundary that will continue to advance as Direct File grows, and the tax law and reporting ecosystem evolves.
- We believe it is vital that pre-population remains a fundamentally *opt-in* experience: when they use Direct File, taxpayers will have to actively elect to use pre-population.

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Because any pre-population will be incomplete and require taxpayers to confirm, correct, and augment their data, it is critical that taxpayers understand what they are choosing to do, and do it on their own terms. Otherwise, it will be hard to maintain the critical principle that taxpayers are, fundamentally, responsible for the accuracy of their own returns.

2.1.3 Pre-population, pre-fill, data import, simplified filing, and return-free filing — defining our terms

To put it mildly, pre-population has been the subject of significant controversy. Tax administrators are concerned that returns pre-populated with incomplete information could encourage taxpayers to file incomplete returns, reducing tax compliance. Some taxpayer rights advocates are concerned that taxpayers would be hesitant to correct their pre-populated return, thereby causing them to leave money on the table. Perhaps most important of all, private tax preparation companies have opposed the implementation of functionality that they see as giving the IRS a leg up on their products. Amid all of this, various actors have tried to mollify the various factions, assuring them that this or that proposal will not trigger their broader concerns. All this controversy and jockeying has led to a proliferation of different terms, all generally connoting “using IRS data to streamline tax filing,” but with slightly different implications and baggage:

- *Automation* usually describes the use of IRS data to require less of the taxpayer and thereby streamline the filing process — whether by showing the taxpayer information to review, by retrieving answers behind the scenes and not asking questions at all, or by correcting taxpayer error after filing. (More rarely, automation has been used to mean the eradication of tax returns entirely.)
- *Pre-population*, likewise, usually describes the use of IRS data to require less from the taxpayer. Narrowly speaking, the term itself implies a more limited scope of change in the taxpayer experience: the data is used to create draft answers, but not used to hide questions wholesale or draw inferences without taxpayer involvement. By this distinction, Direct File prior-year AGI retrieval in 2024 would be mere pre-population, whereas One-Step Signature (which, based on logged-in status, waived AGI retrieval altogether³²) would be automation. In practice, though, most writers or policymakers see *pre-population* as encompassing both.
- *Pre-fill* is effectively a synonym for pre-population (and, by proxy, automation). In some circles, pre-fill was thought to be a more concerning term than pre-population, suggesting that taxpayers would barely even review the pre-filled information, whereas pre-populated information would be offered more as a suggestion. In practice, there has become very little distinction between these two terms.
- *Data import* was the term the Direct File team used to describe its pre-population functionality in 2025: Direct File allowed you to import your data from the IRS. The

³² Behind the scenes, these returns were treated for IRS processing purposes as if they were filed by a tax preparer with an e-filing authorization on file.

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team used this word intentionally, intending to avoid hornets' nests around terms like pre-population or pre-fill. In practice, this linguistic distinction did not really accomplish much.

- *Pro forma return* tends to indicate a situation where the tax agency completes a tax return for the taxpayer, and while nominally a taxpayer must approve it, making adjustments is very rare. In the vast majority of cases, taxpayers will just say “yes” to what has been prepared. This is along the lines of the system in Finland or Estonia.
- *Return-free filing* is used either as a synonym for *pro forma return* or perhaps even one step farther — a world in which there is no longer anything in the tax system that resembles a tax return, because precision withholding has made the process of an annual tax reconciliation entirely unnecessary. The amount you paid throughout the year is exactly what you owe, and there is nothing to reconcile. This is along the lines of the system in the U.K.

We contend that these minute distinctions, at this point in the story of tax filing reform, cause more confusion and harm than good. Fundamentally, ***pre-population, pre-fill, automation, and data import should all be understood as synonyms, for the process of iteratively improving on Direct File so that it requires less and less of taxpayers. Return-free filing and pro forma returns are extreme versions of this process that are not per se achievable in the United States, but are the north stars that the process of iteration asymptotically approaches.*** In this report, we usually refer to ‘pre-population’ or ‘automation,’ which together share the goal of ‘ending filing as we know it.’

2.2 Data sources and limitations

While all pre-population entails using IRS data to streamline the filing process, IRS data is not a monolith. Different pieces of data are available to the IRS from different sources, in different ways, at different times. Sections 2.2.1-6 explore the main data sources, and some of the important issues inherent to each of them. Section 2.2.7 discusses a technical issue affecting all data sources.

Often, the discourse can become fixated on just the first of these data sources — information returns like W-2s and 1099s. But, as we will see, these are only a part of the picture, and other types of data can be just as valuable in streamlining tax filing. Above all, we hope this discussion elucidates the vast and multi-faceted project that is data pre-population, and how it can advance along multiple different dimensions, with different types of benefits for different populations of taxpayers.

2.2.1 Third-party data, or information returns (W-2s, 1099s, 1095s, 5498s)

Income (plus withholding and other relevant tax details) is reported to the IRS by employers/payers on Forms W-2 and 1099. These forms — plus 1095s, 1098s, and 5498s, relating to health care coverage, education expenses, and retirement contributions,

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respectively — are called information returns. The bulk of the discourse around pre-population concerns this data.

Direct File built pre-population in 2025 for W-2s, 1099-INTs, and (partially) 1095-As in 2025, meaning that the legal and basic technical aspects of information return pre-population are essentially a solved problem, though there is much scaling to do.³³

Most of these forms contain predominantly federal information, but they also often contain additional fields with state-specific information, related to the amount earned in each state (and, if applicable, locality), withholding paid thereof, and sometimes other state-specific details.³⁴ While this data is not literally used in the preparation of a federal return, it is usually transcribed into a taxpayer's return during the federal portion of the filing experience, as it will be needed when the taxpayer gets to their state return. This way, taxpayers deal with their income documents just once, not twice, during the filing process.

2.2.1.1 W-2

Forms W-2, reporting wage income, are by far the most important of these information returns, with about 76% of all returns reporting at least one W-2.³⁵ Direct File already built pre-population of W-2s for filing season 2025.

Unlike other information returns, Forms W-2 are not reported directly to the IRS. Instead, the data is sent to the Social Security Administration, which forwards it to the IRS. But **SSA normalizes the data en route**: (1) it aggregates some of the data in Box 12, regarding contributions to retirement plans, which need to be provided separately to prepare a proper return, and (2) it drops data from Boxes 14-20, which are usually used in the calculation of state and local taxes. **This means the IRS's W-2 data is missing critical information.** In most cases,³⁶ taxpayers who used the W-2 pre-population functionality in 2025 needed to retrieve their own copy of their W-2, anyway, to add this missing information — which badly limited the functionality's usefulness. Fixing this gap is critical to Direct File's future.

We believe this issue can be solved administratively: with good intra-administration collaboration, SSA can and would share the required data. While SSA faces some technical challenges due to its fixed-width data systems, these issues are surmountable, and there are no statutory barriers to data sharing. Indeed, most of this data is currently removed only because the IRS historically had no need for state-specific data in Boxes 14-20; IRS simply

³³ The idea of third-party pre-population also has precedent in the private tax preparation ecosystem, where tax prep companies have built integrations with payroll processors and financial institutions which allow taxpayers to import and pre-populate some of their W-2, 1099-INT, and 1099-R data, among other forms. That these integrations are with private systems rather than the IRS means their coverage is less complete. But the basic precedent is well established in the tax ecosystem.

³⁴ For example, Form W-2 may contain documentation of contributions to pension plans that are deductible under state, but not federal, law.

³⁵ Based on the number of Forms 1040 reporting an amount in Line 1a, according to [IRS Publication 4801](#).

³⁶ Taxpayers in states without income tax and without relevant data in Box 12, would not have needed to transcribe their own data.

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must now articulate the use case for this data. **We believe working with SSA to remedy this data pipeline is a far faster route than alternative paths, like pursuing a legislative fix, bypassing SSA and having W-2s reported straight to the IRS, or working with states to independently pre-populate state-specific boxes from their W-2 data (see Section 2.2.6).**

The routing through SSA also slightly delays the IRS's receipt of W-2 data. W-2s are due to SSA on January 31, but it can take a couple of weeks for that data to be available at the IRS. This process, too, could likely be sped up administratively as systems are modernized and with the articulation of a clear use case.

2.2.1.2 Other information returns

Then there are the various other flavors of information returns. These include:

- 1099s reporting income from non-wage sources (e.g., interest (1099-INT), dividends (1099-DIV), unemployment benefits and some other government payments (1099-G), gig economy income (1099-NEC));
- Education-related expenses that may have tax implications (e.g., qualifying tuition fees (1098-T));
- Contributions to tax-privileged accounts (e.g., contributions to ABLE accounts (5498-QA), contributions to IRAs (5498));
- Distributions from tax-advantaged accounts which may have tax consequences (e.g., retirement accounts distributions (1099-R), 529 distributions (1099-Q));
- Health care coverage (e.g., marketplace coverage (1095-A), employer coverage (1095-C)).

Eventually, getting information from all of these forms — of which there are dozens — is critical to Direct File. It's also a tall order, and could take many years.

In 2025, Direct File offered pre-population of 1099-INT, and retrieved data on *whether* the taxpayer had a 1095-A, though not the information on it. The mere fact of the form's existence allowed Direct File to warn a taxpayer that they must go through the Premium Tax Credit functionality.³⁷ And, technically, it is far easier to detect a form's existence than to make full use of all the data on it. This dynamic could be valuable as Direct File iteratively imports data from more and more forms — the easier-to-incorporate presence of forms can be a valuable first step. In the case of other information returns, the presence of a form can help Direct File determine if taxpayers have sources of income that are disqualifying for a still-limited Direct File scope.

2.2.1.3 Timing of information returns

As summarized in the [2025 Direct File report](#), information returns have a range of deadlines, some of which are so late that they pose a serious problem for the usefulness of pre-population. Other than W-2s and 1099-NECs (gig economy income), which are due January 31, most 1098s and 1099s are only due to the IRS by March 31 (or February 28, if

³⁷ Otherwise, their return would be rejected by the IRS e-file system's automated business rules.

e-filed). **Moving the due dates to January 31 for these forms is essentially a prerequisite for a more aggressive pre-population regime.** Unfortunately, this will require a statutory change to 26 USC 6071(b), which establishes the March 31 deadline.

This is to say nothing of W-2s and 1099s that arrive after the deadline, which are also a serious issue. As the [2025 Direct File report](#) lays out, 1099-INTs are due to the IRS by March 31, but the average date of receipt is April 13, and 20% of forms are still outstanding by May 22. **More rigorous enforcement of these information return filing deadlines is also a prerequisite for a more aggressive pre-population regime. This may have to include improvements in the systems that payers use to file these forms.** There is some precedent for the idea that a more aggressive enforcement regime alone can actually improve the timeliness of information return data: according to non-public presentations at tax administration events, some states have seen significant impacts from implementing concerted programs to enforce information return deadlines.

Of course, accelerating deadlines and increasing enforcement could raise objections from employers and other institutions subject to those requirements, and their political allies. We believe the project is worth the risk, though, not least because **the benefits do not end with pre-population, and are not restricted to one side of the political spectrum.** Faster reporting (indeed *far* faster than that envisioned here) will be needed to effectively enforce SNAP and Medicaid work requirements, passed in H.R. 1 in July 2025 (see [Chapter 11: Real-time taxes](#)). **Faster reporting will also empower the IRS to more rigorously detect and crack down on errors and fraud in individual income tax returns,** a longtime conservative goal in Congress, currently badly stymied by the fact that the IRS does not have the data it would need to dispute many tax filers' self-reported income. Moreover, payers already must furnish 1099s to *taxpayers* on January 31. How much additional burden is it really to align the deadline for sending to the IRS with the deadline for sending to taxpayers?

There is also the possibility that data forced to arrive earlier will simply be lower-quality data, which must subsequently be corrected — which would do more harm than good. **More research could be helpful to confirm that earlier reporting is feasible for all information return types, and what kind of allowances are needed to ensure that proper enforcement for the majority of returns does not cause adverse consequences for a more complex minority.**

Meanwhile, there is the issue of 5498s, reporting contributions to tax-privileged accounts like 529s, ABLE accounts, and IRAs, which can have tax consequences. These forms are due to the IRS by May 31. But the deadline cannot be simply moved up; taxpayers do not actually have to make the contributions to these accounts until April 15. So a 5498 sent to the IRS by January 31 would of course be missing a contribution made April 1, which should be reflected on a return filed the same day, or a week later. It is not obvious how to resolve this issue, and it will take additional user research and design.

2.2.1.4 Errors in information returns

The above sections note that Direct File taxpayers need the option — and indeed the responsibility — to correct data pre-populated from their information returns if it turns out to be wrong. Making these corrections, though, could easily create problems. If a taxpayer significantly edits their income amount, for example, it is quite possible the return will get flagged on account of that discrepancy and subject to enforcement actions. If the taxpayer edits their withholding amount, on the other hand, the discrepancy will almost certainly be immediately detected and “corrected” back to the previously reported value, taxpayer edit notwithstanding.

As such, in a robust system, edits taxpayers make to pre-populated data will likely need to be connected back to a process of identifying and correcting the information return source data. Depending on the nature of the correction and the error, this will entail the involvement of the payer who issued the information return, plus the notification of any state and local tax agencies to which the same information return was reported. The importance of triggering this process would depend on the nature and magnitude of the edit. More types of edits and smaller-magnitude edits would become more relevant over time, as modernized IRS systems implement lower tolerances for discrepancies.

The IRS would also need to design a process for the case where a return was filed on the basis of a pre-populated information return that was later amended via a superseding corrected form. For example, suppose a W-2 is filed on January 20, and the taxpayer pre-populates this data and files (without edits) on February 20; but the payer then files an amended W-2 on March 20 significantly editing the taxpayer’s income and withholding. There should be some automated process to alert the taxpayer and expedite a return amendment.

2.2.2 Data from taxpayer account or identity proofing

W-2s and 1099s relate to income received by the taxpayer specifically during the tax year of record. Meanwhile, the IRS has much information about a taxpayer on an ongoing basis, often tied to a taxpayer’s account. **Some of this data is much more esoteric — which, by the same token, makes it especially valuable, since it can be challenging for taxpayers to track down.**

Some of these are items Direct File implemented in 2024 or 2025. (In some cases below, Direct File automated data items whose provision is usually used as verification of a taxpayer’s identity. This worked because Direct File taxpayers had already cleared IAL2 identity verification via ID.me, a higher bar (see [Chapter 5](#)), which made this additional verification unnecessary.)

- *Prior-year AGI or self-select PIN.* To verify their identity on e-filed returns, all taxpayers must provide their prior-year income or the PIN they selected when filing their last return. Many taxpayers get these items wrong, causing their returns to be rejected. The IRS, naturally, has easy access to this information, and the extra

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validation step is unnecessary for identity-verified taxpayers. Direct File allowed taxpayers to import their prior-year AGI in 2024. In 2025, Direct File got rid of the unnecessary middle step, calling the functionality “One-Step Signature.”

- *Identity Protection PIN*. IP PINs are six-digit numbers issued annually to taxpayers who have previously been the victim of identity theft, or who voluntarily enrolled in the program. They must be provided on the return. In practice, some taxpayers have lost track of their IP PINs, or, especially in the case of intermittent filers, [may be unaware they are enrolled in the program at all](#). Again, the IRS has this information, and the extra validation is unnecessary for verified taxpayers. Direct File pre-populated this data in 2025.
- *Biographical information* — that is, full name, address, email address, birthday, SSN, etc. This information is either stored in the taxpayer account or comes directly from the identity proofing service. Direct File pre-populated this information in 2025.

Other items are rarer and more specific to smaller populations, but could be just as valuable for them. Direct File did not implement these items, but they would be natural extensions of the functionality already built.

- *Estimated tax and extension payments*. The IRS knows exactly what quarterly estimated payments or extension payments taxpayers made over the previous year, and would correct this information post-filing if the taxpayer entered it wrong, anyway. That the IRS knows the status of these payments is so obvious to taxpayers that it would be a meaningful public relations benefit to be able to automate this part of the process. Interestingly, there was also some evidence from the early Direct File experience that asking about estimated payments is not just a nuisance for taxpayers who made them, but a source of meaningful confusion to taxpayers who *didn't*, who often do not know what estimated payments are, and sometimes erroneously enter other payments (withholding or property taxes, for example) in this field.
- *EITC/CTC bans under 32(k) and 24(g)*. Taxpayers who are found to have improperly claimed the EITC or CTC are banned from receiving it in the following two or ten tax years (depending on the severity of the improper claim), under sections 26 USC 32(k) and 24(g), respectively. Moreover, even after the ban is over, taxpayers must file Form 8862 the first year they start claiming the credit again. Currently, Direct File must ask highly esoteric questions about whether the taxpayer is subject to a ban, and if they have already filed the 8862. The IRS already has this data.
- *Taxpayer communication preferences*. Taxpayers can use their tax returns to opt into receiving communications from the IRS [in other languages](#) or [alternative media formats](#). Currently, Direct File asks if taxpayers want to set such a preference. Instead, Direct File could display the current setting and allow taxpayers to amend it.

2.2.3 Data from other current-year returns

One category of data not often discussed in the context of pre-population is data from other taxpayers' current-year returns, in the IRS Master File. This data figures into the filing process today through the use of MeF reject codes after a return is filed, but a better taxpayer experience would incorporate it into the filing process (provided these changes can be implemented without opening pathways for fraud or unauthorized disclosure). For example:

- *Taxpayer claimed as dependent.* Taxpayers must report if they are claimed as a dependent on another return, which has far-reaching tax implications. Currently, if a taxpayer has been claimed but does not say so on their return, the return is rejected upon submission. Direct File could instead warn taxpayers who have already been claimed on another return well before submission.³⁸ (This piece of data cannot be used to automate dependency entirely, since the return claiming this taxpayer may not yet have been filed.) The dynamic is similar for the closely related question of whether a taxpayer has been claimed as an EITC qualifying child.
- *Taxpayer already filed.* Currently, if a taxpayer has already filed a return, a second e-filed return would be rejected. A better taxpayer experience would warn the taxpayer up front, before they prepare a whole return.
- *Dependent already claimed.* Currently, if a taxpayer claims a dependent who has been claimed on another return, the return is rejected. A better taxpayer experience would warn the taxpayer upon their entering the dependent on the return. (Unlike in current practice, taxpayers should also be able to e-file conflicting dependent claims, a topic discussed further in [Chapter 12: claiming dependents](#). In a world where taxpayers are warned about the conflict before filing, the return itself could be used to explicitly kick off the resolution process.) This item is potentially more challenging from a fraud and privacy perspective than the previous two.

Unlike with information return and account data, Direct File had not yet examined the technical or legal implications of automating this data, a topic that would have to go through IRS counsel. **There is a strong precedent for sharing this data: taxpayers already get this kind of feedback in the form of MeF reject codes.** Using such data during the Direct File return preparation experience basically just moves the disclosure of such data forward in time — although care must be taken to avoid creating new avenues for fraud or unauthorized disclosure.

2.2.4 Data from prior-year returns

Even taking full advantage of information returns, tax account data, and data from other current-year returns, there is still a lot of information missing to complete a tax return — information not knowable from these other sources. This includes critical information about a taxpayer's family structure, and personal details that the government is not in any

³⁸ Of course, for privacy reasons, Direct File could not reveal *who* has already claimed the taxpayer, simply that someone has.

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reasonable position to observe for the current tax year. All together, this data adds up to a large portion of the screens a taxpayer sees in Direct File, especially in the Family and Household section.

But, these are all data items that are quite likely to remain constant year over year. Using prior-year returns to provide a starting place for taxpayers could save them significant time on their current-year returns. Seeding a return with prior-year data is standard practice in private tax software, and taxpayers indeed cite this prior-year rollover as a critical reason they remain wedded to their existing tax prep solution. Of course, an IRS solution has the key advantage that prior-year data could be carried forward regardless of how a taxpayer filed the previous year.³⁹

Important uses of this data include:

- *Marital status (and, if applicable, spouse information).* Direct File could pre-populate information about the prior year marital (and filing) status, asking taxpayers just to confirm key facts, rather than start from scratch. In the case that a spouse must be added to the return, this would obviate the need for a lot of tedious data entry — often about 5-10 screens in Direct File.
- *Dependents/household information.* Like marital status, pre-populating information about household members would save a lot of data entry — usually at least 10-12 Direct File screens per household member. Again, Direct File would need to ask taxpayers to confirm a few key facts still hold, so that pre-populating data does not become an invitation to disregard life changes. In the case of dependents in particular, Direct File would also naturally take into account the passage of time, so that, for example, a (student) child aged 23 the prior year would not be claimed as a qualifying child this year.
- *Disability status.* Taxpayers must answer a variety of questions about disability and blindness status, for a variety of tax provisions, which can be pre-populated with prior answers.
- *Immigration status.* Taxpayers must answer a variety of questions about the immigration status of themselves and their families, for a variety of tax provisions. In principle, this is data that could be retrieved from other federal data sources, but privacy considerations will tend to militate strongly in favor of not using this data, and instead pre-populating with prior answers.

³⁹ Direct File would be able to carry forward more prior-year data from former Direct File users than from other tax filers, since not every data item a taxpayer provides is explicitly encoded in the tax return; data might, instead, be used to make a calculation or determination, with only the output of the calculation/determination included on the return. (For example, a single parent with a child may not be eligible for Head of Household filing status because they do not pay half the household expenses for the child's home. But that fact itself is not included on the tax return; all that is included on the tax return is the filing status Single, which could have been selected for any number of other reasons.) Direct File would, then, have to navigate a two-tiered situation of prior-year pre-population, where some pre-population is based on prior-year Direct File returns, and is more robust than the pre-population based on another return.

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- *Miscellaneous items.* There are countless additional small items on the tax return where prior-year data is a reasonable guess for current-year information; third-party designee and bank information are two examples.

The above categories are all cases where there can be a reasonably strong presumption that data remains the same year over year. Then there are other **cases where prior-year data might be used to prompt a taxpayer to take a closer look at a particular aspect of the return.**

- *Credit claims.* If a taxpayer in a previous year claimed a provision like the Child and Dependent Care Credit, the American Opportunity Credit, or the Educator Expenses Subtraction, the IRS will not usually have the full information to automate the credit claim in the current year, but Direct File can nudge the taxpayer: “Last year you claimed \$500 in educator expenses. Did you have educator expenses to claim again this year?”
- *Income sources.* If a taxpayer in a previous year reported a certain category of income, it might be useful to prompt the taxpayer to check carefully if they had this category of income again. This might be especially useful in a world where income pre-population is more comprehensive, but there are persistent issues with late-arriving information returns. Suppose for example a taxpayer has historically usually reported interest income, but there are no 1099-INTs yet on file for that taxpayer. Direct File might say: “Usually, you report \$200-300 in interest income on your taxes. Did you have such income again this year? We don’t see any forms reporting this income, but it’s possible they haven’t arrived yet.”

Prior-year data might also be useful to improve transparency for taxpayers seeking to understand their taxes. In practice, taxpayers often expect their refunds to be about the same size year over year, and wonder what went wrong if the number is significantly different. Direct File already has a robust page explaining how a taxpayer’s refund or liability was calculated. It might be possible to incorporate prior-year data into this functionality, and **explain the principal changes between last year and the current year’s return.**

Finally, all of the above uses involve the use of the taxpayer’s *own* prior-year returns. **But there is also the possibility of taking into account information from other prior-year returns.** For example, suppose a taxpayer begins to claim a dependent who has previously been claimed by another taxpayer for many tax years; or a taxpayer reports not being a dependent, even though they have been claimed as a dependent in many previous tax years. In this case, Direct File might use these patterns to warn the taxpayer about a potential error, though of course would not block the taxpayer from making the claim.

Like using current-year data from other returns, Direct File had not yet examined the technical or legal implications of automating prior-year data, a topic that would have to go through IRS counsel.

2.2.5 Data from SSA

The IRS receives birth records (with parent information) from the Social Security Administration's Enumeration at Birth program, which can be used to suggest new children that a taxpayer may want to claim. Direct File might say for example: "According to data from the Social Security Administration, you had a child this year. Would you like to add [child name] to your return?" The IRS also accesses death records from the SSA Death Master File, which can abbreviate a variety of — potentially emotionally difficult — screens regarding the death of a loved one.

2.2.6 Data held by the state tax department

The previous sections discuss IRS data (or data acquired centrally, by the IRS). But, as discussed further in [Chapter 4: Direct File and state taxes](#), the U.S. has a federalist tax system, with state (and local) returns often looming just as large as the federal return. Generally speaking, taxpayers are required to prepare their federal return first,⁴⁰ and state returns are based on the data collected and/or transcribed while preparing the federal return.⁴¹ So to the degree a state return is "pre-populated," it is with the income, family structure, and credit/deduction data from the federal return — whether that data was initially entered by the taxpayer or is itself pre-populated.

But what about data the state tax department itself has? Could this data be valuable in the pre-population of the broader federal-state Direct File experience?

Most state tax department data is duplicative of information that will already be documented during the completion of the federal return, and should *not* be independently pre-populated from state databases into a state return. For example:

- *Information returns.* W-2s and 1099s are reported to state tax departments, just as to the federal government. But by the time a taxpayer reaches their state return, they will have already entered or retrieved their information return data while completing their federal return. Not only would re-pre-populating W-2 data on the state return be unnecessary, it could actually be damaging, as it might induce a taxpayer to inadvertently introduce a discrepancy. Suppose the W-2 issued by an employer contained an error, which the taxpayer caught and resolved on their federal return. It is this corrected version that the taxpayer ought to use on their state return; but pre-populating the state copy in the state functionality could induce the taxpayer to import the wrong version, which is incorrect and will not match their federal return or the income information imported from it. The already-completed federal return, in

⁴⁰ Most state returns explicitly request data items from a federal return. In the case of taxpayers who do not file a federal return, many states require taxpayers to calculate figures exactly as if they had completed that federal return.

⁴¹ Puerto Rico is a notable exception to this rule, where the federal return requires information about the Hacienda tax.

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other words, is probably a more reliable source of information returns than the state department of revenue.

- One nuance here has to do with the gaps in information return data discussed in Section 2.2.1. Some states may receive some information returns before the IRS, and probably all states store the state-specific W-2 data that SSA currently strips out (Section 2.2.1.1). Some have argued that pre-populating information return data from state sources would elegantly solve for gaps in federal data. We contend, though, that this would be a wild goose chase. Even if a few states have better or faster W-2 data and could easily plug this data into their state return functionality (itself a big *if*), most states likely do not, and solving the data issues in these states would be harder than solving it federally. In any case, it would entail solving a problem 42 separate times that could instead be simply solved once. For whatever the challenges to the SSA solution discussed in Section 2.2.1.1, making up the difference with state data will almost certainly be harder.
- *Family structure data from prior-year returns.* States have information about dependents and family structure from prior-year returns, just like the IRS. But, again, by the time the taxpayer gets to the state return, they will have already had to enter and confirm their up-to-date family information in their federal return, and re-pre-populating would only risk creating new discrepancies.

There are a few examples of data items that the state is in a position to know and the federal government is not. For these items, it might in principle be valuable to build pre-population flows using state data to streamline the state filing process. Consider, though, that these are much lower-level items than the much larger range of items discussed in above Sections 2.2.1-2.2.5, and it is unclear whether the juice will be worth the squeeze to build these flows, which would involve substantial technology work, plus possibly even a whole separate identity verification flow to validate the state data requests.⁴²

- *State estimated tax and extension payments.* Taxpayers make estimated and extension payments to the state just as they do to the IRS, and this data could be retrieved from state sources.
- *Prior-year information for state provisions.* Just as Direct File might prompt taxpayers with prior-year information to take a look at certain tax provisions or suggest information added last year, states could do the same for state-specific credits,

⁴² States would need to validate that taxpayers are who they say they are before releasing such sensitive tax data to the user. If states and the IRS used a common identity provider (such as Login.gov, or ID.me), then perhaps this validation would be trivial enough for the end user, though still could require some technical complexity. But if, as at present, states departments and the IRS do not share a common identity solution, end users would have to separately validate to a state identity system — an onerous process, akin to requiring taxpayers to go through ID.me verification twice. Going through it once, as discussed in [Chapter 5: Direct File and identity verification](#), was often trouble enough.

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additions, subtractions, and deductions, eligibility for which is not reflected on a state return, e.g., Renters Credits.

- *Explanation of refund compared to prior year.* Just as Direct file might use prior-year information to explain this year's refund and put it in context, states could do the same.
- *State credit bans.* If any states have credit bans along the lines of 26 USC 32(k), these could be pre-populated into state returns. That said, we are not in fact aware of states actually having these provisions on the books.
- *Property tax data.* Many states have income tax credits or deductions to defray the cost of property taxes. These provisions are onerous for taxpayers, and pre-populating information about property taxes paid would critically help streamline the significant complexity of claiming these credits. That said, in at least most states, property taxes are managed independently of the state income tax department, and there may not be any easy way to pre-populate this (usually local) property tax data. As such, state tax pre-population may or may not be helpful in these cases.

In short, there are some possible uses for pre-populating state income tax data, but they are relatively few and far between. As a result of these dynamics, while pre-population of state tax data might be a nice-to-have, it is certainly not the game-changer that federal pre-population is. Tax administrators must determine whether the technical effort to build integrations and the taxpayer experience implications of a second verification flow are worth it.

2.2.7 Technical issues with non-primary taxpayers

All of the pre-population discussed above entails revealing to the Direct File user highly sensitive taxpayer data. Naturally, taxpayers using this functionality need to clear a high bar of identity verification, along the lines of the standards already being enforced in Direct File (see [Chapter 5: Direct File and identity verification](#)). It would be inappropriate, not to mention potentially illegal, for the IRS to reveal income and prior-year return information to taxpayers who have not confirmed they are who they say they are.

A complicated wrinkle here, though, concerns data of spouses. In the current Direct File architecture, only the primary taxpayer clears identity verification. The IRS cannot display to this logged-in taxpayer the data that belongs to anyone whom they might say is their spouse, unless that (alleged) spouse consents.⁴³ Since both spouses have their own information returns, spouses may have had different prior-year returns, and most questions on a joint return concern both spouses, solving this problem is critical to the success of data pre-population.

⁴³ This might appear tedious and counterintuitive, but consider the implications. If no proof were required, a bad actor could verify themselves to Direct File, report they are married to any arbitrary person in the country, and thereby view that person's sensitive tax data. And even if the taxpayers are in fact married, it does not follow that the IRS should reveal to one spouse the other's data, even if this might be quite normal in many marriages.

The clearest solution would be for both adults to have separate IRS accounts, and the spouse would log into their own account, consenting there for their data to be exposed to the primary taxpayer. There might also be streamlined methods to authorize current-year data disclosure for married couples who have jointly verified in the past.

The spouse data problem is solvable, but will require careful user research and design work by an empowered team to come up with an elegant solution — and, of course, this solution will have to fit in with whatever identity verification policies apply to Direct File as a whole (see [Chapter 5: Direct File and identity verification](#)).

2.3 Limitations of Direct File functionality built to date, and expansion considerations

The existing Direct File pre-population functionality is summarized at length in [the 2025 Direct File report](#), where it is referred to as Data Import. As noted there and above, by its second year, Direct File was importing W-2s (with limitations), 1099-INTs, and the presence of 1095-As; biographic information from ID.me; and prior-year AGI and Identity Protection PINs from the taxpayer account. These were only all for the primary taxpayer, not for the taxpayer’s spouse.

An additional dynamic only partially explored in the 2025 report concerns the way that this pre-population functionality was built into Direct File. Direct File was built first for the experience where a taxpayer answers every question manually. Due to time crunches in delivering this functionality, pre-population was largely bolted on to the existing product structure, both in its technology implementation and in terms of the taxpayer experience. This is not to say that the taxpayer experience did not look different for the pre-populated path, or that the functionality was introduced haphazardly; the changes and the philosophy behind them are discussed at length in Appendix K of the 2025 report. But more would be needed to actually build a taxpayer experience that is “pre-population-first.”

2.4 Next steps and recommendations

2.4.1 Expanding pre-population to include more data items

Expanding pre-population is largely a matter of simply empowering a Direct File team to continue the work that was happening in 2025. As pre-population expands, there are a few principles to keep in mind:

- *Pre-population is iterative.* As discussed in Section 2.1, a pre-population team’s job is not to jump to some new notion of an automated return, it is to deliver more and more automation each year, always prioritizing delivering smaller pieces sooner than waiting to deliver big chunks all at once. “Return-free filing” is simply the ending point of this process of pre-population iteration.

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- *Pre-population is about more than just information returns.* The full roster of possible types of data to pre-populate are discussed at length above in Section 2.2, and a team working on pre-population should think broadly about what it can mean. The team should consider starting to work with IRS counsel early on about additional categories of data for pre-population (e.g., prior-year return data), as a new category may come with more legal review than simply a new form or new item within an existing category.
- *Prioritization.* As in the case of prioritizing new tax scope (see [Chapter 3: Direct File and tax scope](#)), new elements of pre-population should be prioritized based on: (1) number of taxpayers impacted, (2) complexity averted for those taxpayers (with a focus on items that save taxpayers time, items that improve accuracy, and items that might otherwise be showstopping barriers for new/intermittent filers), and (3) effort to implement. There is no magic formula here; a pre-population team should go screen by screen through the product, considering what can be waived, and how valuable it would be.
- *Detecting the existence of a form is easier than making full use of it* (as discussed in Section 2.2.1.2), and the pre-population team should consider applying this dynamic to its advantage in constructing a road map. Detecting the presence of a wide range of forms early on would be incredibly valuable in improving Direct File's eligibility check functionality, which is currently hard to navigate.
- *Cross-team prioritization.* As discussed in [Section 3.5.3](#), capacity is to a degree fungible across different parts of the Direct File team. Direct File writ large can to an extent trade off expansion of pre-population against expansion of tax scope, or state functionality. We believe pre-population ought to be a high priority, but the details of those trade-offs will depend on circumstances and timelines.
- *Spouse data.* Creating an identity verification solution to pre-populate spouse data (Section 2.2.7) is a high priority.

2.4.2 Pre-population, Direct File architecture, and the taxpayer experience

A new Direct File team may have to do some foundational work reimagining how pre-population is built into Direct File. Although pre-population was always a goal of the product, tight timelines in the early years meant that the actual implementation of pre-population was somewhat jury-rigged, both in terms of the taxpayer experience and the underlying architecture (see Section 2.3).

In general, as pre-population was implemented in 2024 and 2025, the default was to show all screens — with then some fields pre-populated, or at best a handful of screens skipped, thanks to the imported data. As pre-population grows, though, it will be able to transform the taxpayer experience in more profound ways, something a team may have to consider from the ground up. Questions like this will become especially relevant as Direct File begins including pre-population from prior-year data, which cannot be included without *some* taxpayer review, but should feature a notion of taxpayer review that does not require going

through all the pages a from-scratch taxpayer would. It would also be relevant to the income section, in which, rather than asking taxpayers to go through potential sources of income category by category, Direct File might display all known income and ask taxpayers to confirm it looks right.

Part of this reimagination and optimization entails the ordering of different data items. For example, currently, Direct File collects family and household information before income, which is important so that Direct File knows which individuals income must be collected from. But, one might want to do a basic review of income sources first, so that taxpayers ineligible for Direct File can be identified up front without spending energy answering a long and complex string of family questions.

2.4.3 Pre-population and state data

As discussed in 2.2.6, state tax departments have their own databases that could be used to pre-populate state returns — but, for the most part, these databases contain few data items that are not already present on the federal return. The Direct File team should work with state partners to determine if the gains from state pre-population are worth the technical effort and taxpayer experience implications. We suspect they likely are not, but the decision should ultimately be left to the implementation teams. If state pre-population is pursued (and, arguably, even if it isn't), federal and state teams should look for ways to reuse federal identity verification at the state level.

2.4.4 Information return availability and reliability

Improving the availability and reliability of information returns is central to the project of pre-population.

- *Collect W-2 Boxes 12-20 in full from SSA.* SSA and IRS must work together to ensure IRS receives the complete W-2, including (disaggregated) Boxes 12-20 (see Section 2.2.1.1). This is the most expedient and universal solution to the problem of incomplete W-2 data. SSA and IRS may also look at speeding up the time between W-2 arrival at SSA (January 31) and their availability at the IRS a couple weeks later.
- *Move up information return deadlines and improve enforcement.* To make pre-population viable, most information returns (including, e.g., 1099-INT, 1099-R, and 1099-G) need to be delivered to the IRS by January 31 (in line with the deadline for delivering those forms to taxpayers, and in line with the deadline for reporting W-2s and 1099-NECs to the IRS), and the IRS needs to more aggressively enforce the existing deadlines. Research is needed to ensure this enforcement does not lead payers to provide lower quality data. This would require statutory changes to 26 USC 6071.
- *Design for the case that not all information returns are available.* Even in the case of quick and decisive action, it would be some time before all information returns are available by early in the filing season. Direct File must be designed for the world in

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which taxpayers use Direct File before their information returns are fully available, with appropriate warnings about the need to add any missing information.

- *Create processes to flag and resolve likely errors in information returns.* If taxpayers edit their pre-populated information return data while using Direct File, this edit should kick off a process to review and potentially amend the information return data. The results of this process, which may include the involvement of the return issuer, should ultimately be reported out to relevant state and local tax departments as well.
- *Create an expedited process to amend returns when later information return data contradicts earlier data.* If taxpayers prepare their returns based on pre-populated information return data that is later altered by an amended information return, Direct File and the IRS should have an expedited process for updating the taxpayer's return and refund.

3. Direct File and tax scope

Chris Given, Gabriel Zucker

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Summary

- The tax code exhibits complexity along multiple dimensions, which are important inputs to any discussion of Direct File's scope. (3.1)
- Direct File never determined its "end point" — how much tax scope would the product support at full maturity? The team discussed a handful of options, ranging effectively from 50 to 95 percent coverage. The lack of an agreed-upon endpoint made nearer-term scope decisions more difficult to manage. (3.2)

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- Direct File’s decision to create a best-in-class taxpayer experience meant that adding each new component of tax scope would be time-consuming, and that reaching “full” coverage would be a slow, iterative process. (3.3)
- Generating consensus on scope decisions was sometimes challenging, often highlighting the conflict between agile technology methodology and government practice (3.4.1). At a granular level, though, Direct File used a data-driven four-part decision framework for new scope that worked relatively well (3.4.3).
- Perhaps counterintuitively, Direct File coverage is sometimes determined much more by small-ticket scope items (a series of small scope restrictions covering various edge cases) than by big-ticket items, like a new form or a new source of income (3.4.5). The impact of all these small restrictions makes it incredibly hard to design effective eligibility screeners (3.4.6).
- Next steps and recommendations:
 - Direct File should decide on an “end point” — the scope it will have at full maturity. This will allow the project to tell a clear story about its development and provide meaningful public multiyear clarity to all stakeholders, allowing all manner of decisions to be made within a more coherent framework. We do not explicitly endorse an end point, though we are inclined toward more modest options, perhaps in the vicinity of 70% of taxpayers. In the near term, Direct File must reach a point of “baseline maturity,” at which it covers about half of taxpayers. (3.5.1)
 - While policymakers may make large-scale decisions about Direct File’s end point and pace of overall development, smaller-scale scope details should be determined by the implementation team. (3.5.2)
 - Direct File should publish decisions about the coming year’s scope earlier, even at the risk of pursuing a more conservative roadmap. Unexpected excess capacity can be moved to other parts of the product. (3.5.3)
 - Direct File’s existing process for smaller-scale scope decisions was largely working well and should be continued (3.5.4). Because of the importance and difficulty of eligibility screeners, Direct File should prioritize using pre-population to automate significant portions of the eligibility determination (3.5.5). For communications reasons and due to modest level of effort, Direct File should also prioritize addressing items of scope that generate de facto income caps (3.5.6).

The IRS sought to deliver Direct File iteratively, ensuring that taxpayers would receive a return on their investment before the tool was completely built out. This approach, publicly articulated as “we’re starting small to get it right,” followed [implementation best practices](#) by reducing risk and enabling the emerging product to evolve in response to real-world use by hundreds of thousands of taxpayers. The IRS could have confidence that it was on the right track, and Direct File was lauded as a model for government IT done right.

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However, the limited scope of Direct File in the years it was available also limited uptake. As the IRS wrote in its FS2025 report, "This approach has many advantages from a risk and budgeting perspective and has ensured that the IRS's investment in Direct File showed immediate returns for taxpayers. Yet unsupported scope items can negatively impact uptake out of proportion to their nominal size. While state-by-state eligibility is easy to understand, tax scope eligibility is more complex and uncertain. Questions about eligibility remain the largest source of customer support inquiries, evidence of how burdensome these scope limitations can be for eligible taxpayers."

This chapter will explore a variety of questions with regard to the scope of Direct File. Why was Direct File a multi-year project in the first place, and were there other approaches that could have accelerated the velocity of delivery? What was the target scope for Direct File, i.e., when would it be finished? And, how did Direct File select the path to reach that goal, and what might be done differently in making such decisions in the future?

3.1 Background: complexity of the tax code

The complexity of the U.S. tax code is a well-worn talking point in policy circles, but it is perhaps only in actually implementing filing products that the severity of this complexity is really thrown into sharp relief. **The complexity exists along multiple dimensions:**

- ***There are, simply, many tax provisions.*** It is this portion of tax code complexity that gets the most attention and is easiest to understand. There are thousands of sources of income, credits, and deductions in the tax code. Even if most taxpayers only use a small set of these provisions, it is not always the same small set of provisions, and many different provisions come into play even in serving a relatively small set of taxpayers.
- ***Single items often require complex, multidimensional tests.*** Consider, for example, a taxpayer's filing status, an example often used to explore tax code complexity during the Direct File policy process. Filing status itself is just a single line on a tax form, selected from one of five options. But a taxpayer may have to answer well over a dozen questions, including, for example, several questions for each dependent they may be claiming, to confirm their eligibility for a given filing status. And so, while many taxpayers may be able to intuit their appropriate filing status, a significant minority cannot.
- ***Supporting a form doesn't necessarily mean supporting all of its fields or the provisions it implicates.*** Intuitively, one might assume that support for tax provisions might be summarized by the form or schedule. One might say, for example, that 1099-R, covering retirement income, is covered by software. In practice, though, the data on 1099-R can implicate dozens, if not hundreds, of unique tax provisions. One might, as Direct File did in 2025, support only some of the 13 possible distribution codes in 1099-R Box 7, or not support taxpayers with 1099-R Box 2b checked.
- ***Tax code complexity is fractal.*** The tax code also reflects what we might call "fractal complexity" — situations in which complexity continues to emerge the deeper one

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gets into a test. There are often exceptions, and then exceptions to the exceptions. For example, a taxpayer can generally only claim a *qualifying relative* (itself a fallback if a dependent is not a *qualifying child*) if they provided more than 50% of the financial support for that relative. But, there is an exception: the taxpayer can claim the qualifying relative if they have a formal Multiple Support Agreement (MSA) with other taxpayers to share responsibility for that child.⁴⁴ For another example, taxpayers are generally subject to a different set of rules if someone else can claim them as a dependent. But, there are exceptions, including, for example, if the other would-be claimant is not required to file a return.

- **The tax code frequently has multiple definitions for roughly the same concept.** As a simple and obvious example, a “child” for the Child Tax Credit, for the Earned Income Tax Credit, for Head of Household filing status, and for the Child and Dependent Care Credit use different definitions and tests (see [Chapter 12](#)). As a more esoteric but perhaps more maddening example, in some parts of the tax code taxpayers are considered to be 65 the day *before* their birthday; in other parts of the code, *on* their birthday.
- **Federal complexity cascades into state returns, often amplifying even small changes.** Finally, as discussed further in [Section 4.1.1](#), minute changes in federal complexity can induce huge changes in state complexity, due to the ways that state returns key off of federal return information.

The tax code really is as complex as it is made out to be, and this has serious consequences for filing software. Creating an experience that guides taxpayers to file an accurate return in every instance is hard; supporting every detail in the code is borderline impossible; drawing boundaries is fraught; and small choices can have significant unexpected consequences.

3.2 Target scope: the end point of Direct File

At no point during Direct File's short existence did the IRS, the Department of Treasury, or the White House answer, internally or publicly, a fundamental question: how many taxpayers should Direct File ultimately cover? In other words, where would Direct File stop?

Essentially no tax products cover *all* tax situations. The Internal Revenue Code is vast, including various provisions claimed by fewer than 100 total taxpayers — who are, themselves, highly unlikely to use DIY tools to prepare their taxes. And software faces a serious issue of diminishing marginal returns as it adds tax scope: adding marginal provisions may take increasingly more work, even as it yields increasingly fewer new eligible taxpayers.⁴⁵ **So, if the target scope for Direct File is not 100% of tax situations, the question becomes: at what point has Direct File supported enough?**

⁴⁴ Direct File ultimately opted not to support MSAs in its early years.

⁴⁵ Illustrating this dynamic clearly, Direct File in 2025 expanded its tax scope to cover probably about 30% more taxpayers than in 2024, but it included about twice the number of screens.

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The May 2023 Report to Congress was cryptic on this subject. Required by the IRA to estimate costs at different levels of return complexity, the Report provided budget estimates for maintaining a "narrow scope" (described as roughly matching the scope of the VITA program) and a "broader scope" (left unspecified). (The costs varied only a small amount; left unstated was the much longer runway to a full build-out for the larger scope.)

Internally, there were a variety of views as to the target scope.⁴⁶

- *EITC claimer scope.* In this scope, Direct File would support provisions necessary to accommodate the tax situations of the vast majority of EITC-eligible taxpayers. Though just over 15% of taxpayers are EITC eligible, a tax product designed to meet the needs of nearly all of those taxpayers would wind up covering a broad swath of low-income taxpayer situations, and probably approximately 50% of taxpayers would be in scope. Such a scope would resemble the scope of the VITA program, but would exclude provisions like capital gains and rental income that are generally disjunct from EITC. It would necessarily include self-employment income, which a significant number of EITC-eligible taxpayers have. This scope was considered a baseline; we are unaware of any participants in the policy process or implementation who would have advocated for a smaller scope, and this scope was widely understood to be the program's medium-term goal, even if it was never explicitly articulated as such.
- *VITA scope.* An enlarged scope would match Direct File's scope to that of VITA. VITA aims to assist low-income taxpayers, but also other historically underserved populations, including persons with disabilities, persons with limited English proficiency, Native Americans, individuals living in rural areas, members of the Armed Forces and their spouses, and the elderly. The targeting of these populations leads to the inclusion of somewhat niche scope items, such as rental income (which is common among military families). By matching VITA's scope, the IRS would create consistency across its tax preparation options. However, this scope might exclude provisions of minor implementation complexity, such as the Additional Medicare Tax, due to the fact that these provisions are not aligned with one of VITA's target populations. There are not authoritative estimates of the size of the VITA-eligible population, though it is likely around 65-70%.⁴⁷
- *70-80% of taxpayers.* Other stakeholders advocated establishing goals based on supporting the tax situations of a set percentage of taxpayers. Percentages in the

⁴⁶ Note that income limits were never contemplated for Direct File. The only purpose of excluding otherwise eligible taxpayers would be to protect commercial interests. Direct File did articulate income limits as part of the Eligibility Checker, but these limits were based on three non-supported tax provisions: repayment of excess Social Security tax, the Additional Medicare Tax, and the Net Investment Income Tax. Any taxpayer whose tax situation was supported by Direct File was permitted to use it, regardless of income.

⁴⁷ VITA has a smaller scope than Free File. Free File covers about two thirds of taxpayers, but has an explicit income limit, which VITA technically does not, even though many sites opt to set one. If Free File did not have an income limit, a higher fraction of taxpayers would be eligible.

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70–80% range were frequently quoted. This is *probably* slightly larger than the VITA scope.

- *90-95% of taxpayers.* At least one prominent figure in Direct File implementation, meanwhile, personally believed the project should target a percentage in excess of 90%, which would require supporting all but the most obscure or narrowly-targeted tax provisions.

Even after Direct File was made permanent, this question remained unexplored and unresolved. IRS talking points frequently cited "low- to middle-income families" as the target audience, but the bounds of this goal were never made explicit.

The lack of a target scope prevented the implementation team from establishing multi-year roadmaps. Such roadmaps would have been useful for storytelling to taxpayers about scope limitations, helping ineligible taxpayers understand that Direct File would eventually support their tax situation. Roadmaps would also have provided clarity to state partners, who must budget and plan their own development efforts well in advance. And they would have aided the implementation effort by providing justification of an ongoing need for technology capacity, pushing back against internal resistance to appropriately staffing the Direct File organization for long-term sustainability.

In the short term, however, foreknowledge of the destination admittedly would not likely have altered the chosen scope. Given consensus around supporting the needs of EITC claimants, once the pilot scope of Direct File was established, the immediate next steps were clear.

3.3 Velocity: why not tackle Direct File's whole scope at once?

The Direct File team discussed three possible levels of experience for the prospective product during the policy process:

- *Ground-up re-design of the experience of taxes, establishing affirmative eligibility for tax provisions and a best-in-class interview-based experience.* This is the option Direct File ultimately selected. In this experience, taxpayers only needed to provide information known to them, without need for IRS instructions or publications, and without being asked to interpret tax law for themselves. This was exemplified in Direct File's approach to filing status. Direct File would only allow the taxpayer to select from filing statuses for which they had demonstrated their eligibility; it was not possible to choose Head of Household without first identifying a qualifying person, satisfying the requirements for marital status, and stating that you paid more than half the cost of keeping up a home. Direct File would recommend the most advantageous filing status, for example, suggesting Head of Household to a taxpayer who also qualifies for Married Filing Separately. While the taxpayer needed

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to affirm this recommendation, and could always override it, Direct File reduced cognitive load by intentionally deemphasizing the presence of a choice.⁴⁸

- *Replicating IRS's paper forms in an online interface, sprinting to address all tax situations while deferring taxpayer experience and burden reduction.* This approach would have followed in the footsteps of the [Free File Fillable Forms](#) product. Proponents of this approach argued that it most resembled a "minimum viable product" and provided the fastest path to addressing the tax situations of virtually all taxpayers. It would have broken the seal on the idea of the IRS providing an electronic filing option and expanded the agency's future optionality, while potentially lessening the risk of blowback from the tax preparation industry relative to the larger threat of Direct File. On the other hand, while some experience improvements over Fillable Forms would have been possible, such a product would not have been compelling for most taxpayers, and the primary benefit over the status quo ante would have been that the government would own the intellectual property. Such a solution would have ensured the availability of a free electronic filing option for all taxpayers in the event of Free File's dissolution, and it could have provided a foundation for future products, but the tool itself would only have been used by a niche population of taxpayers.
- *Replicating IRS's existing instructions and publications in an online interface, without guiding taxpayers through decisions like filing status.* In between the two above extremes, this approach would have still decomposed instructions and publications into individual questions, but would have hewed more closely to existing content and treated the bounds of existing guidance as a limit. The result would have traded taxpayer experience and long-term tax ecosystem value for a reduction in the amount of complexity required to deliver Direct File and a commensurate increase in the speed of delivery. Returning to the example of filing status, taxpayers would have been asked to choose their filing status without answering any other questions. For a majority of taxpayers, the experiential impact of this specific change would have been negligible; however, taxpayers with less common tax situations would have encountered a significantly less helpful tool, and the IRS would have had less opportunity to catch and prevent taxpayer error, such as incorrectly claiming Head of Household status (or, inversely, using Married Filing Separately when eligible for Head of Household). Cumulatively, such changes would have degraded the accuracy and taxpayer experience of Direct File, but also reduced the overall complexity of the endeavor.

Direct File opted for the first option, rooted in the goal, especially championed by OMB, to prioritize delivery of a great taxpayer experience. But this strategy inherently slowed delivery of new tax scope:

- The best-in-class experience **significantly increased the number of questions and overall complexity of the product** that needed to be designed and built.

⁴⁸ Treasury counsel opined during the policy process that such recommendations, when applying general logic and clear fact, do not constitute government provision of tax advice.

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- Moreover, given the fractal complexity of the tax code, there would still be complex debates about where to draw the line on guiding taxpayers through tax code questions — helping taxpayers claim all the money available to them, without weighing down the ‘happy path’ for the majority of tax returns and making it too unwieldy.
- The ground-up reinterpretation of tax law **required the Direct File team and partners in the Office of Chief Counsel to address novel tax law questions and provide new IRS guidance via Direct File’s logic and content.** This, though, had side benefits beyond Direct File itself. The exercise helped the agency identify ambiguities, address contradictions or other “bugs” in existing guidance, and, in one case, identify and remove an entire unneeded section of a form.⁴⁹ These improvements reduce burden for all taxpayers, regardless of how they file. In addition, Direct File’s logic and tests, now open-sourced, are tools that could be used to ensure that the tax law is consistently and correctly applied in other software products, as well as to lower barriers to new market entrants and increase competition.
- These complexities reinforce one another to reach a point at which, very quickly, it is hard for actual human beings on the project to keep track of the functionality. Even by the second year of Direct File, there was probably no single person who had complete understanding of what every part of the product did — and yet there were still vast swathes of it that relied on the memories of individual people, without whom updates or edits to large segments of functionality would be daunting at best. It was already becoming critical to have powerful back-end tools to trace and understand Direct File’s tax logic — tools which were already lagging behind where they needed to be by 2025. **This points to a need to invest in such back-end tools to manage complexity, or else risk the stability of the product and ability to add more new scope in the future.** (More on these tools in [Chapter 9: Direct File, fact graph, and a new way of building civic technology products.](#))

With the decision to pursue option #1, it was inevitable that there would be a hard limit on the speed at which Direct File could roll out new tax scope.

3.4 Making and implementing decisions about scope sequencing

Given Direct File would never support all taxpayers (per Section 3.2), and given Direct File might take a relatively long time to roll out new functionality (per Section 3.3), it was inevitable that there would be complex decisions to make about what would be supported, and in what order. This section discusses how those decisions were made, describes some of the more consequential ones, and explores some of the cultural conflicts that emerged in making them.

⁴⁹ Part V of Form 8862, which allows taxpayers to begin receiving credits (EITC, CTC, AOTC) again after a previous disallowance. The Form now has only four parts.

3.4.1 Decisions, communications, and cultural conflicts

Decisions and communication around scope cut to the heart of some of the most complex cultural and bureaucratic issues in Direct File, due to a few dynamics:

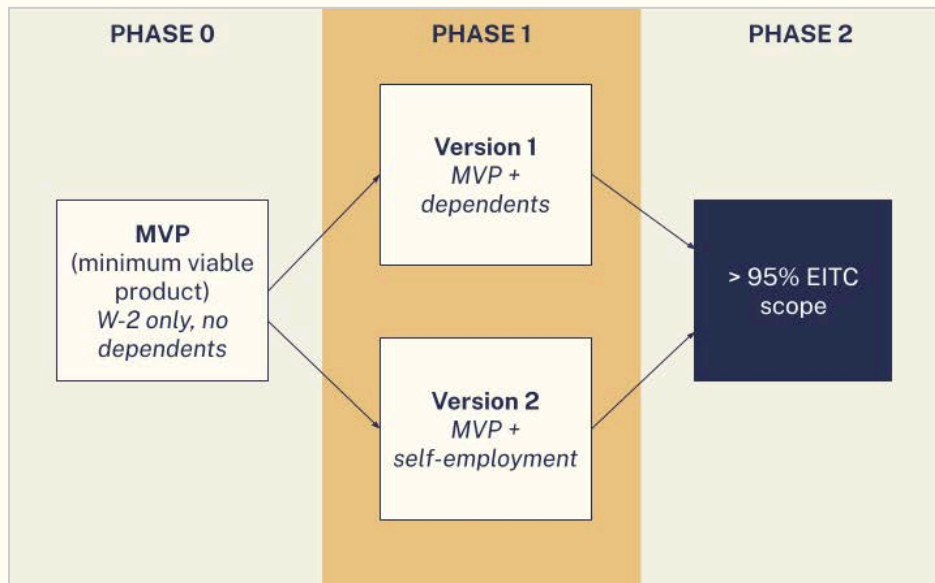
- *Agile development versus government status quo.* Because the Direct File team was an agile team, the team was disinclined to set scope decisions in stone far in advance of the filing season. Instead, there was scope that would certainly be included and scope that would be excluded, but a swath in the middle that would be included if the team could get to it, without 100% certainty eight or even three months out. **This is standard best practice for modern development teams, but it was unfamiliar for various stakeholders.** Direct File scope felt to many stakeholders like an eligibility requirement — and, in government, eligibility requirements are generally set in stone. There is, further, a loose norm in tax administration that things do not change in the course of a tax filing season; changes are made between May and early fall, then frozen. Stakeholders within the IRS wanted more formal certainty as to who would be in scope. Stakeholders at tax outreach organizations like VITA sites wanted to print terms into their brochures. State partners wanted to update their websites. But, ultimately, Direct File generally communicated tentative scope informally to close partners early in the summer, and waited until late in the fall to communicate the final scope for the coming season.
 - **The uncertainty was more acute and more tactically challenging when it came to integrating state solutions, since integrated state filing products would need to build meaningfully different functionality based on Direct File’s scope.** States had to decide in June or July whether to join Direct File for the coming year, with only very high-level information about scope, itself not fully public until months later. The scope information states needed, though, was not only at the headline level, e.g., ‘does Direct File support the Child and Dependent Care Credit.’ It was often at incredibly minute levels, like ‘does Direct File support a 1099-R with Box 12 checked.’ These kinds of micro scope decisions were often issues that Direct File would work out iteratively while building the functionality; there was not even a tentative answer by the summer before launch, much less any framework to communicate it. Ultimately, these kinds of issues were often worked out informally in one-on-one communications between Direct File and state team members, or as a last resort, based on state teams’ own testing in the Direct File demo environment.
- *Tax scope as policy choice.* Compared to any number of other attributes of Direct File functionality (design choices, intensity of live chat support, degree of data import), tax scope questions seemed to scan more legibly to policy stakeholders throughout the federal government as policy choices — and thereby as policy debates. This sometimes created an unproductive dynamic of stakeholders wielding strong opinions about scope, some of which were potentially very difficult to implement, or even ultimately red herrings given actual policy goals. **The entire dynamic conflicted**

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with the agile framework of the team, and often without really yielding a productive policy debate. It also tended to overinflate the importance of tax scope considerations relative to other considerations: if tax scope were the only tractable policy debate, then stakeholders' desires for a bigger and better product would all be funneled into pushing for more scope, rather than cleaner functionality, more states, or anything else. This dynamic was exacerbated by the lack of any clarity about the end point of Direct File (Section 3.2); debates about the nature and scope of Direct File in the long term were transmogrified into debates about the timeline, for example, of Schedule C functionality. And it was exacerbated too, especially in year one, by the tendency of the Direct File team to keep its cards close to its chest on the coming season's functionality, creating public ambiguity that fostered still more undirected debate.

- *Expectations that public programs are universal.* Hanging over both internal and especially external conversations about scope was the (laudable) general philosophical premise that public programs should be universal. No one would blink an eye about a private tax software testing its foot in the market in its first year by supporting just a few cases and building up from there. **But Direct File, from its very first day in production, faced implicit or explicit criticism for the ways its supported scope was smaller than that of mature tax software that had been in use for decades.** It took real effort to sustain Direct File's mantra of 'we are starting small to get it right.'

3.4.2 Big-picture fork: initial scope



The most minimal scope Direct File could have delivered would have been to match the scope of the deprecated Form 1040-EZ, supporting filers with wage income and no dependents. As with the 1040-EZ, even such a narrow scope is useful to a significant number of taxpayers, and the implementation team considered this the true "minimum

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viable product" scope. However, no participant in the process ever advocated for this scope, not even the implementation team. Instead, the question became which of two potential complications above and beyond this minimal scope should be tackled first, with the goal of increasing reach among the EITC-eligible population.

The chosen path began by adding dependents and qualifying people, supporting provisions like the Child Tax Credit, Head of Household filing status, EITC with qualifying children, and so forth. These interconnected provisions required significant effort to untangle, yielding the streamlined experience of Direct File's *Your Family and Household* section — which was also essentially future-proofed to cover any future dependent-related provisions that might be added later. But they enabled Direct File to be positioned from the start as a tool that served the needs of families, even though filers with dependents didn't exceed 15% of Direct File's user base in its first two years. (One factor that limited uptake among this population in the pilot was that Direct File didn't support the Child and Dependent Care Tax Credit, which resulted in the Eligibility Checker including overly exclusionary language that discouraged families with child care expenses from proceeding. But even after the addition of this provision, Direct File continued to primarily reach an audience without children. See [Section 6.4.](#))

An alternative path would have temporarily jettisoned the complexity of dependents and instead focused on expanding the supported income types as rapidly as possible, and in particular, by supporting self-employment income and gig economy workers. These provisions were also considered to be high level-of-effort, requiring adding support for deducting a subset of business expenses and other areas of tax law nuance. However, the need among the gig economy population is acute: filers with "business" income are more likely to pay fees to file, and the typical fees are significantly higher. Adding self-employment income support to Direct File would have been a compelling product differentiator, and would have leaned into the younger, more elastic demographics where Direct File was starting from a position of strength.

Both dependents and self-employment income were required to expand eligibility to the vast majority of EITC claimants. The only difference between the two paths was which to support first: dependents then self-employment income, or vice versa? Both paths offered compellingly separable scope delineations, as they were easy to describe to taxpayers considering Direct File. "Do you have kids?" and "Do you have 1099 income" are trivial to answer, unlike the exclusion of certain credits, which can require the taxpayer to understand complex eligibility rules (or, more likely, for Direct File to use overly-exclusionary language to preserve the experience while avoiding taxpayers leaving money on the table).

Prioritizing first the value proposition of supporting self-employment income would likely have led to higher usage in Direct File's early years. However, the exclusion of families would have removed the largest refundable credits from scope. As Direct File sought to address the twin policy goals of reducing the administrative burden of filing and increasing credit uptake, supporting families first was the clear way to serve both objectives.

3.4.3 Making smaller-bore decisions: four-part decision framework and RAAS model

Beyond that initial significant choice, Direct File used a four-part rubric to assess which scope to add:

1. *Total number of taxpayers.* How many more taxpayers would be brought in by including this item? This number was in practice often weighted toward lower-income taxpayers, or taxpayers who were deemed more likely to actually use Direct File. For example, brokerage income would have increased support for a large number of taxpayers but these taxpayers were not considered a target population.
2. *Comprehensibility of eligibility screening.* How would including or not including this item impact Direct File's ability to explain in plain language who was eligible to use the product overall? Perhaps a given exception to credit eligibility applies to a tiny number of people — but it is much easier to say 'this credit is in scope' than to say 'this credit is in scope except for XYZ exceptions.' This dynamic is explored in more detail in Section 3.4.5.
3. *Difficulty to build.* How much effort would it take to build the functionality — both in terms of literal engineering work, and in terms of design work to make complex tax concepts tractable?
4. *Customer support implications.* Would support for this item have an impact on the amount of resources needed for Direct File's live chat?

Looking at item #1 could be mathematically a bit more complex than it might appear at first blush: what Direct File cares about is not how many people use a given provision, but how many more taxpayers are brought into scope at the margin by adding that provision. Consider a hypothetical situation where 10 million taxpayers use Provision A, which is easy to support, but all of these taxpayers also use Provision B, which is very hard to support. The large numbers on Provision A are illusory in this case; thanks to the high covariance of incidence of the two provisions, you don't realize any gains in coverage until both A and B are supported.

To explore these covariances, the IRS Research, Applied Analytics, and Statistics division (RAAS) developed a model: given a certain tax scope, the model would return the number of taxpayers included in that scope. The model did not make deductive judgments; that is, it did not search across the scope space to determine which provisions would actually most increase coverage. In practice, though, use of the model revealed that the covariances did not cause any especially counterintuitive conclusions. Using the raw popularity of each marginal provision would be a reasonable proxy for the number of new taxpayers brought into coverage. In other words, analysts can use the raw numbers in [IRS Publication 4801](#) as a good proxy for the first part of the four-part rubric.

The rubric was ultimately a fairly effective tool for making scope decisions, and even with the benefit of 20-20 hindsight, there are not major changes we would make to Direct File's scope sequencing.

3.4.4 Exploring details of Direct File’s scope

Filing season	Income sources supported (high level)	Deductions / subtractions supported	Credits supported	Approximate share of taxpayers eligible ⁵⁰
2024	<ul style="list-style-type: none"> • W-2 • Unemployment (1099-G) • Social Security (SSA-1099) • Interest under \$1500 (1099-INT) 	<ul style="list-style-type: none"> • Student loan interest • Educator expenses 	<ul style="list-style-type: none"> • EITC • CTC • ODC 	21%
2025	<ul style="list-style-type: none"> • Some retirement income (1099-R) • Interest over \$1500 (Sch B) • Alaska Permanent Fund Dividend 	<ul style="list-style-type: none"> • HSA contributions 	<ul style="list-style-type: none"> • CDCTC • Premium Tax Credit • Savers’ Credit 	29%

This section outlines a handful of scope decisions Direct File made or scope-related issues the product saw. This section is not exhaustive, but is intended to give future implementation teams some context for the types of issues that came up in setting scope.

- *1099-R and SSA-1099.* Direct File supported Social Security income from the pilot forward. Taken on its own, Social Security was a fairly straightforward addition to scope, even as taxpayers over the age of 65 were less than 10% of Direct File's userbase. But Direct File did not initially support retirement income reported on form 1099-R, despite its significant overlap with the retiree population. In the pilot, with 1099-R unsupported, some retirees got creative and attempted to report their 1099-R income as Social Security (reported on form SSA-1099); there are significant differences in how the two are taxed, and these returns were thus subject to error correction.
- *1099-R scope restrictions.* In contrast to Social Security, 1099-R was significantly more complex, and even once added in Direct File's second year, many situations had to be excluded from scope. Boxes on the 1099-R were requested from the taxpayer one by one on separate pages, and most boxes had various entries that would cause the taxpayer to be knocked out from the product. The unsupported situations

⁵⁰ Direct File [2025 filing season report](#) reported 32.3 million eligible tax units in 2025, and 15.4 million in 2024. Direct File 2025 states have a combined population of 226 million; 2024 states a combined population of 150 million. In general, there are 48.5% as many tax units as there are people in the population (165 million returns for 340 million people). This makes $15.4/72.8 = 21.2\%$ in 2024 and $32.3/109.6 = 29.4\%$ in 2025. Note that 2024 eligibility (which had been reported as closer to 20 million tax units in late 2023) was retroactively revised downwards in 2025 after refinements to the RAAS model.

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included contributions to Individual Retirement Arrangements (IRAs); incorporating questions about IRAs into Direct File actually restricted access, because it excluded some eligible taxpayers who had made IRA contributions but could have determined on their own that these contributions had no tax impact.

- *Unemployment compensation and educator expenses.* The pilot included support for the educator expenses deduction and unemployment compensation. Beyond enabling Direct File to reach these important audiences — teachers and the recently unemployed — these additions served a useful messaging purpose. Both provisions are sometimes locked behind additional fees in commercial filing options. In the case of the educator expenses deduction, the value of this provision can be entirely negated by the commercial software surcharge. In the case of unemployment compensation, this can create a particularly negative experience where, following the loss of a job, insult is added to injury when it causes a fee to be added to your taxes.
- *Credit for the Elderly and Disabled.* Direct File added support for the Credit for the Elderly and Disabled. Including the credit was necessary if Direct File were to live up to its commitment to ensure that taxpayers did not leave money on the table; and in light of the counterfactual complexity of explaining to taxpayers in a screener that the credit was not supported, without making it sound like elderly and disabled taxpayers were ineligible to use Direct File. But it is an antiquated credit, and only 24 of Direct File's 301,085 taxpayers were ultimately eligible to claim it.
- *Schedule C.* Direct File of course did not support Schedule C income in 2024 or 2025, though it was on the road map for 2026. The lack of support for Schedule C became a major focus of attention among various stakeholders, who felt — whether or not it was mathematically true — that it was *the big gap* in Direct File's functionality, and that the gap caused a lot of would-be outreach partners to approach Direct File skeptically. It also would have been a useful messaging coup for Direct File to have Schedule C support since, like unemployment and educator expenses, self-employment income is often an item locked behind additional fees in private software. Getting charged for Schedule C is in many ways *the quintessential* way the private market currently fails taxpayers. The plan for Schedule C in 2026 would not, though, have been to support every corner of the form for anyone with self-employment income, but rather to support a variety of the most common use cases for gig economy workers. The theory was that this would get most of the population of interest, largely leaving out higher-income white-collar workers, while lessening the overall effort. However, without going through the design exercise of attempting to define a bright line scope, it is unknown whether this theory would have held up to tax law reality.

3.4.5 Overall eligibility is just as much about small-ticket items as big-ticket items

A counterintuitive (at least for policymakers) dynamic tends to emerge in the sum of all these detailed scope decisions: it is often the sum of dozens of small restrictions that depresses coverage, more than a few large ones.

“What would have gotten coverage to 50%? In addition to the big ticket items, easing countless other restrictions.”

This dynamic is clear if we zoom out. In 2025, Direct File served about 29% of taxpayers in eligible states. The next two big-ticket items in the road map, which were theorized to bring Direct File to baseline maturity, were (simple cases of) Schedule C and education credits. But, according to [Publication 4801](#),⁵¹ about 5% of taxpayers file Form 8863 for education credits, and about 19% file one or more Schedules C. Keep in mind that lots of these Schedule C filers are higher-income business owners with

complex tax situations, who would not have been in scope for 2025 Direct File for a number of different reasons; and the same dynamic applies, to a lesser degree, with the education credits. So, even making very generous estimates, adding both these big ticket items probably would not have brought Direct File coverage to even half of the population.

What *would* have gotten coverage to 50%? In addition to the big ticket items, easing countless other restrictions.

Some of these seemingly-small restrictions actually would have brought in more taxpayers than, for example, education credits. These include IRAs (Direct File 2025 supported much retirement income but not IRA contributions) and investment income (Direct File 2025 supported interest but not investment income). Others are smaller than items like education credits, but still substantial: taxpayers who live or work in multiple states; taxpayers with multiple 1095-As; dividend income; and all manner of minor edge cases in traditional pension income coverage (discussed above). These seemingly small restrictions add up.

This dynamic is a major reason why policymakers interested in overall coverage rates need to establish broader scope *goals*, rather than pick at a couple of large-seeming tax situations (see Section 3.5.2). It’s in the details of how the provisions are implemented that overall scope is determined.

3.4.6 The impossible task of eligibility screeners

In an ideal world, scope restrictions would be enforced in an eligibility screener, before a taxpayer goes through identity verification and actually starts preparing their return.

⁵¹ For Schedule C, we use the number of returns with business income or loss from Schedule 1. This is smaller than the number of Schedules C, since taxpayers may file multiple Schedules C.

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In practice, extensive user research and experience in production showed that this was basically an impossible task. Burdening the eligibility screener with lots of text, lots of questions, and lots of pages would simply have stopped taxpayers from getting through it whatsoever. And even with a limited amount of text, taxpayers very often simply did not read what was on the page, since the eligibility screener did not feel to taxpayers like a formal part of the product, in which it was critical to answer questions correctly. As such, it became vital to build “knockouts” in the product itself, removing a taxpayer from Direct File once their actual answers revealed they were out of scope, especially for more esoteric out-of-scope items like rare codes on W-2s or 1099-Rs, which simply could not be cogently addressed in an eligibility screener. But, conversely, this meant a population of people having the subpar experience of starting Direct File only to realize midway through a return that it was not for them. In the worst-case scenarios, as in the SSA-1099 and 1099-R example discussed above, it led to taxpayers preparing inaccurate returns, as they tried to force the software into working for them.

This challenge tends to militate in favor of, as much as possible, making scope decisions that relate to tractable blocks of taxpayers, and supporting edge cases within those categories even if they are relatively rare. It also highlights the critical importance of building more data import functionality, as discussed in [Chapter 2: Direct File and data import / pre-population](#), to help make these eligibility determinations automatically on taxpayers’ behalf.

3.5 Next steps and recommendations

3.5.1 Establish a stopping point and a number of years to get there, and tell a story about the timeline

Establishing a clear goal about the end point of Direct File would provide badly-needed multiyear clarity for the Direct File team and state partners, allowing all manner of smaller decisions to be made within a more coherent framework.

Determining this goal is appropriately a policy process, and we do not pretend to have a precise answer here. **However, we are inclined toward the more modest rather than the more expansive side of scope options.** Above around 70% of taxpayers, the dynamic of diminishing marginal returns starts to become very biting, not just at the federal but especially at the state level (see [Section 4.3.6](#)), and in practice we are concerned that a focus on ever more taxpayers would come at the cost of higher priorities, like the expansion of pre-population, all in the interest of serving a population who would likely still not use Direct File any time in the medium term. It would also drive up Direct File’s cost per return, weakening the policy case and potentially becoming a political liability. Better, we think, to keep Direct File more focused on being an excellent tax filing product for low- and middle-income taxpayers, that truly revolutionizes the filing process and closes the gap, than to burn time and attention swinging for the scope fences, building excellent interfaces

3. Direct File and tax scope

for increasingly esoteric provisions claimed by an increasingly smaller handful of increasingly higher-income taxpayers.

Just as important as setting this medium-to-long-term goal, the policy process should set a goal of what we might call “baseline maturity,” as soon as practically feasible. This would be a scope at which about half of taxpayer situations are covered, and at least 90% of EITC taxpayers. This probably reflects something like Direct File’s 2025 scope plus Schedule C gig economy income (but not business-ownership income), gambling income, education credits, and a few other smaller-ticket items. Based on the Direct File team’s previous work, these provisions should be able to be included no later than a year after Direct File’s hypothetical reanimation. Once Direct File reaches baseline maturity, it would allow the IRS to drastically change the way it promotes and communicates about Direct File, positioning it as a default option for many taxpayers (see [Chapter 7](#)).

Whatever the ultimate goals are, it is important to tell a clear public story about them. Treasury and the IRS should communicate what Direct File is trying to achieve, when it will get there, and why it is proceeding the way it is. This would generate better consensus among the disparate stakeholders invested in the tax ecosystem, and, again, provide critical operational clarity for state partners. It would also defray tensions stemming from stakeholders’ — understandable — unease about a government product that is still, as yet, far from universal. These stakeholders would at least understand *when* more universalism would be possible, and the degree to which it was an explicit goal.

3.5.2 Let implementation teams make smaller-scale scope decisions

Establishing a goal and a timeline would have another benefit: it would focus the policy process on an appropriately policy-shaped question. As discussed in Section 3.4.1, in the early years of Direct File, each minute piece of tax scope ran the risk of becoming a multi-stakeholder policy debate, a timeline and a format not well-suited to such decisions. Plus, as discussed in Section 3.4.5, focusing on specific scope decisions can obscure the broader point about actual coverage, since coverage is determined as much by a thousand small decisions as a few big ones. **Policy stakeholders should set, as above, the big picture timeline and strategy, plus perhaps guidance about the relative import of different aspects of the multidimensional scoring rubric for smaller scope decisions — and then leave it to the implementation team to determine the precise sequencing of items within that broader framework.** Stakeholders, in other words, should order the kind of pie they want in the amount they want, but not tell the bakers how to bake it.

3.5.3 Communicate detailed scope earlier in the year, even if it means a more conservative roadmap, plowing any unexpected capacity into other dimensions of the product

As discussed in Section 3.4.1, there was tension between Direct File’s agile methodology on one hand and stakeholders’ expectations and needs for earlier certainty on Direct File

3. Direct File and tax scope

scope on the other. **We think, ultimately, the benefits of a more agile approach to scope were not worth the drawbacks, and Direct File would largely be better served by clearer, earlier, more definitive scope communication — even at the cost of having to be somewhat conservative about what is delivered in a given year. Direct File should provide draft scope information (including not just headline scope, but minor details) by perhaps July 1, and publish final determinations by perhaps September 1.** This should include formal documentation of the esoteric edges of the tax scope, which may not be relevant for outreach or policy stakeholders, but are critical for integrated state filing functionality.

This recommendation dovetails with the recommendation in Section 3.5.1 to do public storytelling about the multi-year road map of Direct File. These earlier and more formalized announcements of scope provide opportunities to put the supported scope in broader context — to explain, for example, *Provision X is not in scope this year, but it is high on the list for the following year*, or to explain that *Direct File prioritized Group A of interrelated provisions rather than Group B of interrelated provisions*.

Relatedly, the scope announcements provide a powerful opportunity for Direct File to communicate clearly about the characteristics of taxpayers who are likely eligible in the coming year. External partners and advocates constantly sought details about whom to promote Direct File to; it was challenging to add up the various credits and deductions and income sources into profiles of particular taxpayers. **Using the RAAS model and prior-year taxpayer behavior, Direct File could paint a picture of the ages, income ranges, family structures, income sources, and even employment industries of the kinds of people most likely to use the product.**

Establishing a more conservative scope earlier in the process of course runs the risk of the team finding itself with extra capacity later in the year. But there are plenty of margins in the Direct File product other than tax scope. **Excess capacity can be used to make improvements in user experience, in particular in data import / pre-population functionality, and back-end improvements that stabilize the product for the long term.** Adding pre-population throughout the course of the filing season poses no particular communication or stakeholder management challenges the way adding scope does.

3.5.4 Continue to use Direct File’s existing process for smaller-scale scope decisions

Even with 20-20 hindsight, there are relatively few scope decisions over the first two years of Direct File that were clearly wrong. **This suggests Direct File’s four-part rubric for scope decisions was relatively effective, and should continue to be a guideline for future implementation teams.** If anything, future teams might put slightly more pressure on item #2 — the difficulty of explaining the bounds of Direct File eligibility, in light of the 2024 and 2025 experience.

The RAAS model could be made slightly easier to query, and perhaps publicly available, making it easier and more transparent to measure the population impact of different

choices — but then again, in practice, using Publication 4801 data was perhaps just as effective a method of determining the quantitative impact of different scopes.

3.5.5 Prioritize automating eligibility screeners

As discussed in [Chapter 2: Direct File and data import / prepopulation](#), a promising use of data import is to automate the Direct File eligibility screening process. Given the high difficulty of actually describing eligibility restrictions, discussed in Section 3.4.5, this should be a high priority, thereby better facilitating Direct File’s iterative approach to scope.

3.5.6 Add support for provisions that otherwise impose income caps

Though Direct File never had and never seriously considered explicit income caps, non-support for the Additional Medicare Tax, excess Social Security withholding, and the Net Investment Income Tax created effective income caps above \$125,000 in income (with the exact limit depending on filing status and other factors). Such a limitation is not a serious problem vis-a-vis Direct File’s goals and target populations. But the limitation *did* become a thorn in the side of Direct File messaging. Many external stakeholders, including the media, excessively keyed on these income limits, as if they were meaningful barriers to take-up, or as if they were the main limitations on Direct File’s use — or, they would get stuck on the apparent contradiction of Direct File “not having an income limit” while still in practice having an income limit. **Supporting these provisions would be relatively trivial, would remove “gotcha” corners of the eligibility space, and would meaningfully ease communication about the program.**

4. Direct File and state taxes

Gabriel Zucker, Chris Given

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Summary

4. Direct File and state taxes

- State (and local) taxes are an integral part of the U.S. income tax system, and the interconnection between them and federal taxes is complex. While the systems are separate, vast parts of their administration overlap, and there is considerable technological consistency across states. (4.1)
- Before launching the product, Direct File considered five options for state support in Direct File. The option ultimately selected — state filing in a separate product, supported by a data sharing API — was option #2 of 5, and was the lightest-weight option other than the option of providing no state support at all. More intensive options were essentially infeasible under Direct File’s early timelines. (4.2)
- Integrated state filing solutions worked well for most taxpayers in 2024-2025 (4.3.3), but the solution was not good enough for a meaningful minority of taxpayers, and there was also no clear path to scale to multi-state returns (4.3.4).
- Thanks in part to careful design and an intentional engagement strategy, Direct File was making fast progress with states, and we believe it was on the path to coverage in about 45 states by 2027 (4.3.5). That said, the economics of separate state filing solutions in the long run was not a solved problem (4.3.7), and the pursuit of different options in different states exacerbated some of the financial issues by preventing states from taking full advantage of economies of scale (4.3.8).
- Next steps and recommendations:
 - Direct File should not compromise on state filing. Direct File was right to restrict access to those states that offered specified state filing solutions. Free, high-quality state filing should be guaranteed for any Direct File user — even if it means accepting a slower pace of national scaling. (4.4.1)
 - Given the benefit of time to revisit the issue, Direct File should explore creating a way for state tax departments to configure their own state tax functionality directly in the Direct File product. We believe the reimagined tech stack discussed in [Chapter 9](#) could make this approach possible. It would solve otherwise-thorny issues regarding federal-state dropoff, multi-state returns, and the economics of state filing options. States pursuing this option would not need to maintain their own standalone filing software. (4.4.2)
 - For states that continue to provide standalone state filing options via the integrated API model from 2024-2025: Direct File should explore supporting the creation and maintenance of a public multi-state state filing product, to ensure options and a healthy state filing ecosystem (4.4.3). Direct File should also make improvements to the integration model (4.4.4), and set user experience standards for the standalone state products, so as to ensure a consistently excellent user experience (4.4.5).
 - Direct File was correct to reject the possibility of having federal Direct File staff directly build state filing functionality. (4.4.6)
 - Congress should consider providing financial resources for states joining Direct File. (4.4.7)

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- Despite all of this attention to state filing, the federal return is the front door of the American tax system, and policymakers at the federal and state level need to be careful to ensure federal options remain at the center of policy reform and taxpayer communications. (4.4.8)

State taxes were — before and during the pilot — one of the big question marks of Direct File. It was arguably the area in which it was least obvious how the problem would be solved at all, in which there was the most ambiguity about how the proposed solution would work in practice, and in which it is easiest to imagine things having gone differently.

Section 4.1 explores the basic outline of the U.S. tax system, in terms of the interaction of federal and state taxes. Section 4.2 lays out the various state filing options Direct File considered. Section 4.3 presents a detailed assessment of how the implementation actually went and where it would have been headed in 2026 and onwards, including various esoteric details that may be helpful to future implementation teams. Section 4.4 recommends next steps, including things to do differently in the future.

4.1 Background: state taxes

4.1.1 The interaction of federal, state, and local tax administration

In the U.S., most taxpayers have to file both federal and state income tax returns. Approximately eight states (depending on certain definitions), representing about 20% of the population, do not impose income taxes, so taxpayers do not file state income tax returns. Elsewhere, they do.⁵² Generally, taxpayers have to file a return in every state where they lived or worked during the year.

The complexity does not end with states: about nine states have localities (usually cities, sometimes counties) that *also* levy income taxes.⁵³ The complexity of local income taxes varies significantly. In states like Maryland, the local tax is figured by a single line on the state income tax form, with the difference between different counties at most a different multiplier for the tax rate. At the other end of the spectrum, in Michigan, 24 cities levy independent income taxes. Detroit's are administered by the state and are figured using a separate form on the state return, while the others are administered on their own separate forms and sent directly to the city's tax department, without the state's involvement.⁵⁴ In

⁵² In most cases, the income thresholds for requirement to file are similar or identical at the federal and state level, so that a taxpayer required to file a federal return in an income tax state will also be required to file a state return.

⁵³ ITEP publishes a list of local taxes [here](#). Note that payroll taxes are generally not of relevance for an income tax filing product, and in some cases even local income taxes can function more like payroll taxes in practice.

⁵⁴ 22 of those 23 cities have collaborated to develop a common return form, standardizing some administration — though the last city, at least as of 2024, continued to use its own form.

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these cases, the Michigan tax department does not even have detailed information on what local taxes entail, much less a role in administering them. In between these extremes, in New York, two localities (New York City and Yonkers) impose local income taxes, with their own complexities, on par with the complexity of a standalone state — but the returns are filed with and processed by the state tax department, rather than being sent straight to the local tax department.

For the rest of this chapter, we largely refer only to state taxes — but, where relevant, we are by extension referring to local taxes as well.

The actual information provided on state returns is largely similar to the information provided on federal returns. Most states require the same basic information (demographic and contact information; filing status, usually matching the federal status; listing of dependents) as from the federal return. Then, most states start with federal income as reported on a tax return, adding in additional income sources the state taxes but the federal government does not tax (“additions”), and subtracting those sources the federal government taxes but the state does not (“subtractions”). For simple cases, few or no additions or subtractions come into play. States then apply their own deductions and credits, the amounts of which are sometimes literally listed on — or at least directly calculable from information on — the federal return. **The average state return contains few pieces of information not present on a federal return, though the space between federal and state — and thus the number of new pieces of information on the state return — increase exponentially at higher levels of tax complexity.**

Regardless of how much new information is needed, filing a state return in nearly all cases requires a taxpayer to have completed a federal return, as a starting point.⁵⁵ Thanks to this property, and thanks to the limited amount of additional information required for most state returns in practice, **it is standard for taxpayers to file their federal and state returns together, in one piece of software, or with one paid preparer.** The taxpayer provides their information once, and software or a preparer uses it to create two different returns.

While the information is similar, though, the federal and state forms are completely different. Any given piece of information on the federal return has to be saved to an entirely different line on the state return — both the XML (the e-file submission) and the PDF. Thus **even in the simplest possible case where the state return contains no new information, there is still a lot of software work to be done routing the data from the federal return to its corresponding point on the state return.** At best, there is sometimes consistency in the formatting of various fields. In most states (though not all), for example, the maximum length of a street address is the same as on the federal e-filed return, even though the data element is named something different and located somewhere different.

But, while the state forms are essentially unrelated to the federal forms, there is tight integration between the federal and state submission pipelines. In all states but California,

⁵⁵ Most state returns require taxpayers to transcribe figures from the federal return, meaning that the taxpayer must prepare the federal return even if they haven’t submitted it and do not plan to.

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state returns are e-filed through Modernized e-File (MeF), the same IRS-run submission processing system used for federal returns. That is, software providers send the federal and state returns to the same digital endpoint; software providers do not have to set up independent connections to dozens of state tax filing systems, and states do not have to maintain their own systems to receive returns. States also have a notion of ‘linked returns,’ in which the state submission is digitally connected to the federal submission. In this case, software packages send states a copy of the federal return alongside the state submission, which states can use to assist in their processing, and states do not receive their returns until the associated federal return has been accepted — which means that some basic quality control has already been done. The IRS also runs some high-level checks on the state returns submitted to MeF, on states’ behalf. This entire category of functionality is known as the MeF Fed-State Program.

There is also some consistency across states in the formatting of certain administrative components of the return. Thanks to standardization efforts spearheaded via the Federation of Tax Administrators (FTA), most states use the same formatting to receive basic information such as identifiers, payment information, and security information. States also store their return formatting standards on a common platform, so that software providers can access all the documentation they need in one place.

There is also significant collaboration and data sharing between the IRS and state tax departments. State tax departments, in fact, get individual-level data from the IRS about which taxpayers have filed in their states, and about enforcement actions taken against taxpayers. There are two drawbacks to this data though. First, it arrives quite late; states tend to get data for tax year 2024 around December 2025. Second, this data is considered Federal Tax Information, or FTI. FTI is highly protected data, and [comes with a variety of stringent requirements about where it can be stored and how it can be used](#). Many state systems are not considered secure enough to store FTI, and so FTI is often stored on dedicated separate systems within the state tax department, separate from other systems and data. (The copy of the federal return included in a linked return in MeF, notably, is considered to come straight from the taxpayer rather than from the IRS, and is therefore *not* considered FTI.)

4.1.2 State tax technology status quo ex ante

Each state, needless to say, has its own tax administration systems. But from a technology perspective, there are not 42 entirely unlike systems. Rather, as of 2024, the vast majority of states used one of a few vendors to administer their entire tax technology stack. About 70-75% of income tax states were using FAST Enterprises’ tax administration product GenTax. Another approximately 10-15% were using RSI’s product Revenue Premier.⁵⁶ A few more were using a system built by the company Voyatek. Only about 10% of states were

⁵⁶ It is hard to nail down precise numbers because some departments may use the standardized products for some, but not all, of their operations. As such, some departments appear to be in multiple categories.

4. Direct File and state taxes

running their tax systems on other software, generally custom legacy solutions, and in most cases these states were looking to replace these legacy systems with one of the common vendors.

As part of its suite of offerings within GenTax, FAST offers states an “eServices portal,” a suite of taxpayer-facing tools. Among these is an “eServices return,” a product to file the state return for free, directly with the state tax department — in other words, a state-level Direct File. (Because FAST also runs the backend submission processing in these states, these state returns are not passed through MeF, but rather are submitted directly to the state.) The eServices return was an optional part of FAST functionality, and FAST employees embedded in the state tax department, working with state employees, would have to configure the eServices return to the state’s specific tax laws and provisions. As such, the maturity and sophistication of eServices returns varied by state. As of 2024, about 18 states had FAST eServices returns configured; among these, some were configured to be very interview-based, whereas others required taxpayers to do more tax calculations and logic for themselves. Generally speaking, states tended to be participants in the Free File Alliance,⁵⁷ or to have FAST eServices returns, but not both.

RSI had configured a similar state filing product in two states.

In addition to the states with FAST/RSI filing, there were an additional six states with other state-run filing products, built in-house by the state, or built by other technology contractors. The level of sophistication again varied, from a California product that even pre-populated information into the state return, to some state products that were little more than electronic fillable PDFs of the state forms.

Even in states where they were offered, though, few taxpayers used these state filing products. The reason goes back to the point above: most taxpayers expect to file federal and state returns through one integrated and unified process. These state return products stood apart from any federal filing process, and taxpayers using them had to re-enter lots of information they had already entered into another software product during federal filing. Taxpayers generally start with their federal return, and continue filing their state return with the same process they used for federal, rather than switching to these state tools.

4.2 Direct File’s five options for state support, and barriers to federal work on state solutions

The [Direct File report to Congress in May 2023](#) correctly noted that taxpayers expect to file their federal and state returns together, and would have drastically less interest in a federal filing tool if it did not in some way support state returns. Internally, the Direct File team had

⁵⁷ States “participate” in Free File by inviting the Free File companies to set up Free File offerings in their states. Usually, Free File products include free state filing if and only if the state explicitly participates. But some Free File products support states that do not explicitly participate; and some Free File products do not support states that *do* participate.

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prepared a memo with five options about how state taxes could be accommodated, presented here in order of increasing smoothness of taxpayer experience, but also increasing effort for Direct File:

1. *No accommodation.* Direct File supports federal taxes, and that's all. Service is either restricted to states without income tax, or taxpayers are simply left to figure out state taxes for themselves, after completing Direct File.
2. *State API.* This is the solution Direct File ultimately implemented. At the end of the Direct File experience, taxpayers would be able to export their Direct File data directly to a state tax filing tool, via a new API. This would allow them to start their state return with the federal data. But Direct File would take no concrete role in what those state tools were or how they would be built; it would be entirely up to the states — though it is not as if the Direct File team had no idea what the states would do. In proposing this option, the team was aware that many states had FAST contracts and eServices returns, and if FAST were able to integrate their filing tools with Direct File, it could bring many states along.
3. *State API + open source toolkit.* The same user experience and state API as Solution #2 — but rather than leaving states to their own devices to create their filing tools, the Direct File team would provide an open-source toolkit states could use to build their own solutions. Since so many aspects of state filing were common across states, this could decrease development costs for states who might otherwise build solutions from scratch. Because the Direct File team could control the design system and standards of the toolkit, it could also effect a consistent user experience between the federal and state returns. That said, if most states joining the program were FAST states opting to use FAST solutions, the toolkit might often not be used in practice.
4. *Sandbox for state configuration.* The Direct File team would create a space that state technology teams could use to build their state functionality directly into the Direct File product. How exactly this would work was not fully fleshed out. But, in the best case scenario, this would allow states to take responsibility for interpreting and implementing their own tax logic, while taxpayers would benefit from filing both federal and state returns through one unified product, much like in private software, rather than exporting data from one to another and using two separate products. From the taxpayer's perspective, that is, it would feel like one product filed both returns, while, on the back end, functionality related to state returns would have been configured by state staff. (This solution is much like the one we discuss in Section 4.4.2.)
5. *Full support in Direct File.* Direct File would build support for state forms directly in the product. Adding a state form, for example the NJ-1040, would be just like adding a federal form, for example the Schedule EIC. As with option #4, from the taxpayer's perspective, the functionality would be integrated in one product, much like it is for private software.

As we move down the list, though, there were increasing barriers for the Direct File team:

4. Direct File and state taxes

- *Authority to spend federal money on state taxes.* Despite [some spurious claims to the contrary in 2023 and 2024](#), few lawyers seriously questioned whether the IRS, with its wide authority to administer the federal tax system, had the authority to spend money on Direct File, a product facilitating the filing of federal tax returns. It was, though, considered slightly less obvious whether the IRS had the authority to make Direct File expenditures on state functionality, in the ways discussed in #3, #4, and especially #5. Still, most team members believed that the authority existed, and the legal hurdles could be overcome, much as it has never been seriously questioned whether the IRS can spend money administering the MeF Fed-State Program. While authority questions may have been a rhetorical attack line against Direct File, they were largely not considered binding.
- *Authority and ability to interpret state tax law.* Slightly more complicated than spending resources on state tax law, though, was the question of making official legal determinations about it, which was inherent in option #5. IRS Counsel reviewed and signed off on the federal tax law interpretations inherent in Direct File. Would IRS Counsel feel it had the authority and ability to opine on *state tax law*, a topic on which, moreover, no one in the Counsel office had expertise?
 - There is also the related issue of accountability for administering a state program more generally. Would the state tax department hold the IRS responsible and impose consequences on the IRS if it felt the IRS had violated state law? What would happen if a state legislature made an incredibly last-minute change to state law; would the federal government be compelled to find the resources to update functionality? Who would decide? (This latter point is far from hypothetical; while Congress sometimes makes news by amending federal tax law for a given tax year in, say, December, state legislatures not infrequently amend the law for that year in the following March or April, in the middle of the filing season.) How would states react to the federal government making the final judgment calls about tax scope for their state returns? And would states eventually resent the lack of control and become uninvested in the solutions?
- *Resources and time.* Finally, there was the mundane question of whether the Direct File team had the capacity to pursue any of the more intensive options. In fact, there were large periods in mid-2023 when the team even questioned whether it would be able to deliver option #2 on time, especially due to implementation issues over deploying the API on IRS systems. Direct File was a sprint to the finish as it was, and adding support for states could have been the straw that broke the camel's back, no matter whether it was option #3, #4, or #5. If it were option #3 or #4, the lightest-weight of the unpursued options, there was also a timing issue: the toolkit or sandbox would have to be finished in time for states to do anything with it, which was basically impossible by the time the pilot was announced. And if it were option #5, there might be an additional question: could the IRS really be in a position of *choosing* which states to support? (Remember that, in the pilot as actually implemented, *states* chose to participate.) With a longer runway, and with more

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Direct File basics already built, a future implementation might get around these resource barriers. But, in 2023, they were basically the deciding factor; the Direct File team could not do any more than option #2.

4.3 Direct File's State API solution, in practice

4.3.1 Direct File state solutions in place in 2025

In filing season 2025, the second year of Direct File, there were essentially four categories of state Direct File solutions in production. Most of these were *integrated solutions*, which is to say that taxpayers could export their data from Direct File to the state filing product rather than starting from scratch. Direct File strongly encouraged states to build these integrations if they wanted to join Direct File, but did not require it, instead prioritizing more state expansion. As a result, a few states provided *unintegrated solutions*: at the end of Direct File, the taxpayer was linked to a state filing product, but their data did not come with them, and they had to re-enter their information from scratch.

- *Integrated FAST eServices returns (IL, MA, NM, OR, PA, WI)*. FAST eServices returns, as discussed in Section 4.1.2, with a connection to the Direct File API. All of these states had their eServices returns configured prior to the 2025 filing season, and so simply updated them to connect them to Direct File.
- *Unintegrated FAST eServices returns (CT, ME, WA)*. CT and ME joined Direct File without integrating their FAST eServices returns, so taxpayers started over on their state returns. WA had a similar situation with a twist: Washington does not impose a state income tax, but does provide a state EITC, which can be accessed via a FAST eServices form that we might call a pseudo-return. This pseudo-return was not integrated, and was just linked to from the end of Direct File. CT, ME, and WA had all expressed at least some intentions to integrate their products by filing season 2026.
- *Integrated FileYourStateTaxes returns (AZ, ID, MD, NC, NJ)*. Beginning in mid-2023, in collaboration with and on behalf of partner states, [Code for America developed a custom product for integrated state tax filing in Direct File](#). Code for America worked exclusively with states without a configured FAST eServices return, and almost exclusively with non-FAST states, which had fewer clear routes to joining Direct File in the near future. In most of these states, Code for America built, operated, and administered the technology, working with state partners to define tax scope, review content, and promote the software. Returns were filed as linked returns in MeF, like private software returns.
 - *Collaborative NJ model*. In New Jersey, the state-specific functionality was designed and built by the Office of Innovation (OOI), a digital service team in the New Jersey government, according to FileYourStateTaxes's overall design system. This allowed the state (though not, in this case, the tax department) to directly control and build the state functionality, while saving the expense of deploying the product and building all the non-tax aspects, such as account management and overall architecture, e-filing, and customer service

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interactions. OOI submitted pull requests to the Code for America team, who would review and merge them into a shared codebase. The collaboration proved it is in principle possible to empower states to build their own state-specific functionality into a larger cross-state product.

- *Integrated custom state tools (NY)*. New York was supported by FileYourStateTaxes in collaboration with Code for America in filing season 2024. In 2025, based on this experience and the learnings thereof, New York built its own custom product integrated with Direct File. New York's product was the only integrated state product that was not built by FAST or Code for America.
- *Unintegrated other state tools (CA, KS)*. California and Kansas joined Direct File using their existing state filing tools — CalFile in California (built in-house by the tax department) and WebFile in Kansas (built by Tyler Technologies), neither integrating them with Direct File. Both had expressed intentions to integrate their returns by filing season 2026; California's state legislature in fact passed a law requiring the state to do so.

The other eight states supported in Direct File (AK, FL, NH, NV, SC, TN, TX, WY) were states without state income taxes, which meant no state-level development was needed to support taxpayers.⁵⁸

4.3.2 Building and maintaining integrated state solutions in 2024 and 2025: technical reference

This section lays out some of the process and technical details of building state solutions, mainly from the perspective of the development of FileYourStateTaxes. This section is very heavy on minutiae, and is probably not of interest to most readers. We include it in light of the experience we had researching and building state tools in the early days of Direct File: we found that there was incredibly little public information about the details of state e-filing, and, especially relative to federal taxes, nearly no one with on-the-ground implementation expertise we could ask as we sought to find out more.⁵⁹ As such, we intend this section to be helpful to any technology teams — whether at the state level, or perhaps at the federal level building allowances into Direct File for states to use — who may be working on state filing functionality in the future; we intend it as a guide to the kinds of issues state returns had to deal with, and the kinds of issues a team would have to keep an

⁵⁸ Since no state-level development was needed, most of these states were supported in the pilot year. Alaska is the exception. In Alaska, nearly every taxpayer receives a [Permanent Fund Dividend](#) (PFD) from the state, which is classified as federally taxable income. But the PFD is an income source that was not supported in Direct File in 2024. As such, nearly no Alaska taxpayers were in scope to file their federal returns using Direct File. Support for the PFD was added to Direct File in 2025, thereby adding Alaska to the program.

⁵⁹ It is likely private tax software companies had such experts, but we were not able to access them. The organizations we connected with, who had some policy expertise on state taxes, were generally very far from anything related to implementation. Even questions like 'which states would be easiest and hardest to support' were basically impossible to answer other than through primary research.

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eye on. Note that some of these considerations were not relevant to FAST teams working with pre-existing filing products.

Tax scope determination. Developing state solutions began with the determination of supported state tax scope, with the general goal that nearly any taxpayer who used federal Direct File would have their state tax situation supported. With a target federal-to-state conversion rate well over 90%, state solutions could not afford to drop from scope any meaningful number of federal Direct Filers. Going through state tax forms line by line, most scope decisions were relatively straight-forward — items would tend to be clearly in scope (e.g., a state EITC; or the listing of dependents) or clearly not in scope (e.g., a subtraction for specific types of business income, when business income itself was not in scope at all for the federal product).⁶⁰ A handful of items were less clear; they might technically be available to eligible taxpayers, but in practice seemed very unlikely given the taxpayer populations in question.⁶¹ For these elements, state tax departments often queried their own data to determine how common they were among the Direct File eligible population, and technical teams looked more precisely at the cost of supporting the provision.

Since this scope determination process was so closely based on the federal product, it required Direct File to communicate scope to states fairly early in the process — and at a high level of granularity. For example, state solutions did not merely need to know that 1099-R was supported; they needed to know which boxes were supported, and which codes in those boxes.

Local taxes. Support for localities is a critical part of scope determinations. We believe that integrated state solutions should consider the local tax implications for taxpayers, which may be a topic states have not directly reckoned with before. The viability of supporting local taxes can be a make-or-break issue for states joining Direct File. But this does not mean state solutions necessarily *must* include local support; the right choice depends on the details of the state. In some states, like Pennsylvania, taxpayers are very accustomed to handling their local taxes entirely separately from their federal and state returns, and in such a case, it is appropriate for a Direct File solution to disregard local taxes. In Michigan,

⁶⁰ More complicated, sometimes a state provision would technically be definitively out of scope for a federal Direct File user, though the fact of it being out of scope was slightly more esoteric. For example, there is the question of state 529 and ABLE accounts, which are state-sponsored tax-advantaged accounts to save for college and disability expenses, respectively. Some states have income subtractions for contributions to these accounts. All states we are aware of impose income *additions* in the case that a taxpayer withdraws funds for a non-qualified use. FileYourStateTaxes did not support these additions for non-qualified withdrawals, and so anyone with a non-qualified withdrawal needed to be barred from using the product. But any taxpayer with such a withdrawal would receive a 1099-Q or 1099-QA documenting this income — and this was an income source listed in Direct File as being unsupported, though the fact of its non-support may have had no federal tax implications. FileYourStateTaxes took this at face value, and assumed a taxpayer did not have any such income, and so was not subject to the addition.

⁶¹ Subtractions for contributions to 529 or ABLE accounts, as discussed in the previous footnote, are a good example.

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on the other hand, taxpayers are generally accustomed to tax software supporting local taxes, and in this case support is more critical.

Implementing scope restrictions. Implementing any scope restrictions for the state products was a challenge given the two-part filing system, and required collaboration with the Direct File team, whose priorities were not necessarily aligned. It would be technically trivial to implement eligibility screeners at the beginning of the state filing product. But taxpayers would only reach those eligibility screeners after having submitted a federal return on Direct File. If they were blocked at this point from using the state solution, they would be in a challenging position, without any easy way to file a return. It would be much better for the taxpayer if the state restrictions were communicated before filing a federal return, so they could switch to a new filing solution altogether. But the federal eligibility screener was owned by the federal team and optimized for the federal experience — with understandably limited ability to accommodate every state request. Moreover, not all taxpayers rigorously read the eligibility screener. Direct File did far more enforcement of its scope restrictions in the body of the product, implementing “hard knockouts” when a taxpayer’s answers made clear they were out of scope (see [Section 3.4.6](#)). But if Direct File had limited ability to customize the screener to state requests, there was even less ability to design and implement new hard knockouts for state restrictions in the flow.

FileYourStateTaxes, the integrated state tool built by Code for America, eventually adopted a distinction between *hard* and *soft* eligibility restrictions. *Hard eligibility restrictions* were issues where, if a taxpayer used the product under that circumstance, they would be filing an improper return. *Soft eligibility restrictions* were cases where a taxpayer could file a valid return with the product, but there was a chance they would fail to claim a provision they were eligible for. FileYourStateTaxes implemented clear screeners for hard restrictions, and advocated for knockouts for these restrictions in Direct File. But FileYourStateTaxes was less aggressive about implementing soft eligibility restrictions, on the theory that it would be far better for most taxpayers to go ahead and finish their state return rather than risk filing none at all. More closely integrating the products, and allowing taxpayers to go through the state functionality before submitting the federal return, would greatly improve the taxpayer experience vis-a-vis scope restrictions.

State tax complexity. In practice, the difficulty of supporting a given state in Direct File was largely a function of a few factors:

1. The number of provisions of relevance in the tax code, and in particular:
 - a. The complexity of calculating them. Some states, for example, have a flat tax rate; others have progressive tax rates with 5-10 brackets that vary by each of five different filing statuses, meaning tax calculation requires dozens of lines and test cases rather than one.
 - b. The number of provisions that require front-end questions to taxpayers, to make eligibility determinations. Provisions like a property tax credit, which

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are based on a variety of eligibility determinations with no federal analogue,⁶² are far more difficult to implement than provisions that can be calculated silently from the federal return, or with a limited number of additional questions.

2. The complexity of the state forms. States vary significantly in how much information is required to be repeated on state forms from federal forms, how much that information needs to be reformatted or recalculated, and how much the basic logic of the schemas matches that of the federal government and other states.

The first factors are akin to the complexity calculations facing the federal team, and would be familiar to any government technology team. But the second factor also introduced much cross-state variance, and should not be understated.

Push/pull exports, sequencing of the taxpayer experience, and import of non-accepted returns. Early in the process in 2023, there were a few significant interrelated debates about the sequencing of the state product and its interaction with the Direct File API:

- *Import of non-accepted returns:* would taxpayers be permitted to export their data from Direct File to the state tools before the federal return they submitted had been accepted by MeF?⁶³ What if they tried to export a return that was still pending? What if they tried to export a return that had been rejected?
- *Push/pull:* would the export be a *push* (the taxpayer authorizes the disclosure to the state product at the point they finish their federal return, “pushing” the data to the state product, so it is already waiting for them upon arrival) or a *pull* (the taxpayer is on the state product and sends a request to Direct File to *pull* the data over, going back to Direct File at this point briefly to authorize the transfer)?
- If it were a *pull*, when in the taxpayer experience would the pull occur?

FileYourStateTaxes opted to only allow taxpayers to import returns that had been accepted, though other state solutions answered this question differently. This decision was based primarily on user research showing that, in this two-part experience, taxpayers didn’t like the idea of moving on to work on the state return until they knew the federal return was squared away. Allowing taxpayers to continue while the return was pending would be a better experience for the majority of taxpayers whose returns went on to be accepted — but notably worse for the minority whose federal returns were rejected. Not only would those taxpayers with rejected federal returns have to backtrack and redo work on their state return, but there was no way for Direct File to *proactively* alert FileYourStateTaxes

⁶² Property tax credits are often administered at the level of a taxpayer’s household, rather than their tax unit; this means collecting information on the income and characteristics of household members who do not otherwise appear on the tax return at all. The credits also require collecting information about property tax or rent paid, and whether the taxpayer’s dwelling is subject to taxes. None of these questions appear in any way on a federal return.

⁶³ When a return is submitted, MeF runs a series of checks on it to make sure it is valid and does not contain obvious contradictions or conflicts with existing returns. Once the return passes these checks, it is “accepted,” which *usually* takes just a few minutes. If it does not pass, it is rejected, with an explanation for the failure, and a taxpayer has to edit the return and submit again.

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about the status of a return that changed after the return's import. So taxpayers would either get a notification from Direct File about their rejection while things seemed to be going fine completing their state return; or they would only realize the rejection had occurred once they filed the state return, which would be rejected for not linking to an accepted federal return in MeF. In addition to the confusing taxpayer experience, managing multiple perhaps-conflicting imports would be a non-negligible technical challenge for the state tax team.

The push/pull debate was resolved in favor of pull for two reasons. First, and more importantly, it was due to the legal framework that the Direct File team adopted for the data sharing. Although the Internal Revenue Code authorizes the IRS to disclose taxpayer data to states, such data is required to be handled according to safeguards specified by IRS Publication 1075, which anticipates neither the intercession of state-affiliated third parties like FileYourStateTaxes nor the redisclosure of the data to the taxpayer for use filing a state return. As a result, Direct File chose an approach wherein the data was treated as being disclosed *to the taxpayer*, and once disclosed, the IRS was facilitating the taxpayer's optional decision to transmit this information to a third party. Following disclosure, the data is considered the taxpayer's own information, and is no longer subject to restrictions on FTI in the government's possession;⁶⁴ it's your data, and you can choose what to do with it. In contrast to 'pulling' extant data, a taxpayer consent to later 'push' information once available could not be considered a disclosure to the taxpayer, as the taxpayer could not have received the information at the time consent was given.

Second, even if the legal restrictions were somehow surmountable, 'push' would not work well with the policy of only allowing export of accepted returns, since the taxpayer's return status is not known when they reach the last page of Direct File, and isn't known for several minutes.

Rather, in a world where only accepted returns can be exported, it behooves the integrated experience to let as much time pass as possible between the completion of the federal return and the import pull on the state tax product, to increase the probability that the federal return has been accepted by the time the taxpayer tries to import it.⁶⁵ So, in a world with only accepted returns being imported, FileYourStateTaxes moved as much functionality as possible into the pre-import stage: eligibility restrictions, multi-factor account set-up, and terms and conditions.

⁶⁴ Such disclosure to the taxpayer is authorized under §6103(e). A more permissive framework that might have enabled 'pull' would have been to use §6103(c), which authorizes disclosure to a designee of a taxpayer. The Direct File team recognized, however, that whatever trail was blazed by Direct File would also be used for disclosure to other third parties; indeed, the IRS today exchanges data with the tax prep industry using the same technical and legal infrastructure first created for Direct File. The use of §6103(e) has the benefit of disallowing standing, open-ended authorizations; every time the taxpayer wishes to share data via this method, the IRS must first provide them with a complete copy of the same data.

⁶⁵ MeF appears to take about five minutes to issue an acceptance/rejection in normal periods — though taxpayers can certainly reach the import stage in far less than five minutes, and in any case the MeF wait times can swell up to several hours during peak periods.

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While this was probably the best set-up, it did come with challenges. Some taxpayers were indeed frustrated waiting for their returns to be accepted, especially as technical issues and large volumes created MeF processing delays of an hour or more on April 15.⁶⁶ It was also challenging to track taxpayers' progress through the pre-import stages of the state return, since these taxpayers could not be de-duplicated or identified in any way — a fact that became frustrating when it became clear that most taxpayer drop-off was occurring during this pre-import phase (see [FileYourStateTaxes 2025 report](#), Appendix B).

FAST states, meanwhile, generally allowed taxpayers to import their federal returns even if they were still pending in MeF, though taxpayers could not import a return if it was known to be rejected.

State tax landing pages. State tax tools naturally had to provide a link to which Direct File would send taxpayers to complete their state returns. But recall that in the case of FileYourStateTaxes and other custom integrated solutions, taxpayers could not use the product unless they had used Direct File; there was no functionality to simply complete a state return by hand. So, ideally, arbitrary non-Direct File users would not be able to find these landing pages, since they could not use them unless they were coming from Direct File.

But people *would* search online for FileYourStateTaxes and the other state products, seeking information. So, FileYourStateTaxes set up a home page with information about the product, pointing taxpayers back to the Direct File home page; this home page was separate from the landing page to actually use the product, which was *not* linked from the home page. The goal was to make the landing page hard to find on the public internet. But the public internet is the public internet, and many taxpayers did find it anyway, only to realize later — perhaps at the point of data import — that they could not use the product. These phantom visitors further confused usage statistics in the pre-import part of the product. A better solution would find some way to channel Direct File users and only Direct File users to the actual product, but the implementation teams could not determine a foolproof way to do this that did not risk locking some valid users out of the state product.

Designs. FileYourStateTaxes took the approach that the designs and tone of the state filing tool should, as much as possible, align with Direct File. This included basic best practices like mobile-responsiveness, commitment to plain language, and generally asking no more than one question per page. But it also included more minute points, like trying to use the same terminology Direct File did, including, for example, when translating jargon into Spanish. This more minute point required lots of studying the Direct File product to ensure consistency.

At the same time, the Direct File and FileYourStateTaxes teams also had a notion in 2023 that it was not a goal for the products to look as much like each other as possible — rather, if the products maintained some visual differences, it would help taxpayers understand

⁶⁶ These are receipt-and-processing-side delays faced by *any* e-filed returns from any software package — not delays specific to Direct File.

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which product they were using, and therefore better understand what to do if, for example, they were having problems. While the products did indeed ultimately look different, it is unclear if this quite had the intended effect of making clear the distinction in taxpayers' minds; taxpayers appeared still to frequently conflate the two products.

XML and JSON payloads. In 2024, the Direct File API exported to state products only the actual federal return as submitted by Direct File to MeF, which is an XML file. But the return itself has various limitations. For one thing, some basic information required for a return is not in fact cleanly and directly reported on it, including such basics as taxpayer and spouse full name and date of birth.⁶⁷ For another, the final return inherently does not contain intermediate inputs (such as, for example, whether a taxpayer's Social Security Number is valid for employment), which may be critical for state calculations.

To address these issues, for filing season 2025, Direct File began sending a two-part payload via the API: the XML of the return, and a second file of additional data elements required by the state software, which was sent via JSON. Adding elements to this payload was not entirely trivial, but the process was becoming smoother over time, to the point that state software was getting most of the elements it requested by the launch of the filing season.

But the data elements were still limited to items that specifically appeared in the fact graph; custom derived elements were still out of the question, even if they could be helpful to many states. For example, many states provide state EITCs that relax one or more restrictions to federal EITC eligibility (usually age or TIN requirements). These states would have benefited from an indication of whether a taxpayer had qualified for EITC along all other eligibility criteria, and what the amount would be were they fully eligible — a “hypothetical EITC” as it were. But Direct File was not, in 2025, able to calculate and transmit this value.

Testing. Like Direct File, FileYourStateTaxes had to create a collectively-exhaustive suite of test personas that would test all key elements of the functionality. Adding a wrinkle to the process, though, was the fact that state returns in FileYourStateTaxes started with the import of a federal return, which would have been created in Direct File. This made FileYourStateTaxes testing reliant on Direct File testing; FileYourStateTaxes staff had to create test returns in Direct File and import them.⁶⁸ To expedite state-side testing, Direct File test exports were stored in the FileYourStateTaxes codebase, and, in the FileYourStateTaxes demo environment, one of the stored cases could be imported into the product to start a state return. This allowed multiple different state cases to be tested with only one Direct File return, and obviated the need for repeating the same return in Direct File multiple times if a test failed once on the state side — both valuable, because completing Direct File returns manually was time-consuming and required the attention of tax experts familiar with the federal law and product. There were also some allowances on

⁶⁷ Taxpayer names, for example, are subject to truncation that cannot always be losslessly reversed.

⁶⁸ The alternative, manually creating federal XMLs, proved unwieldy.

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the Direct File side to amend partially-completed test returns, again expediting the process of creating and importing varied federal returns. Still, parts of this process were onerous. One possible solution — optionally leveraging generative AI — is discussed in [Chapter 9: Direct File, fact graph, and a new way of building civic technology products](#).

Account management. State software had to decide on an account management strategy when taxpayers were passed over from Direct File. At a high level, there were three available options: (1) taxpayers create a lightweight state software account, without any explicit identity verification, (2) taxpayers log into a separate state account, complete with some form of identity verification, (3) taxpayers authenticate to state software using the same identity provider they use for Direct File (in 2024 and 2025, ID.me; see [Chapter 5](#)).

In selecting an option, state software likewise had to account for three considerations: (1) Would the account creation process become a friction, inducing taxpayers to drop off entirely and fail to file their state returns? (2) Would the verification process be rigorous enough that it would allow taxpayers to access potentially-useful information in their state taxpayer account, and/or connect to other logged-in state online services? (3) Would the account process provide sufficient confidence that the user was not committing identity theft and refund fraud?

The third of these considerations was effectively moot for integrated software: if a taxpayer had to import their Direct File return to use the state software, the identity verification required to complete Direct File was effectively imported to the state product. Because Direct File identity verification was quite strict (again, see [Chapter 5](#)), there was no significant reason for concern that state returns were fraudulent. The first and second considerations point in opposite directions, though. In most states, FileYourStateTaxes and FAST came out on different sides. Seeking to tie state filing into the state online account, most FAST states required taxpayers to log into their state account (though in year two non-logged-in filing was also available in some states). Prioritizing the lower friction (and given that FileYourStateTaxes had no access to the state account anyway), FileYourStateTaxes created a lightweight account creation process, via which taxpayers only had to enter and verify (via a six-digit code) a contact method (email or phone). In practice, as discussed in Section 4.3.4, there was non-negligible taxpayer dropoff in the early part of the state filing process, and so limiting friction in this stage turned out to be an important priority.

That said, the third option — using the same identity provider as Direct File — could well have optimized the process along both dimensions, allowing the taxpayer to be authenticated for state tax purposes while not introducing more friction than the lightweight FileYourStateTaxes account approach, since the taxpayer would already have set up their authentication service on the federal side. Arguably, in fact, this approach could be even lower-friction than the FileYourStateTaxes implementation. In practice, though, as none of the Direct File states were yet using ID.me for their own services, none of the Direct File states actually pursued this approach in 2024 and 2025.

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Assorted esoteric state tax issues. The following list is by no means exhaustive, but lays out some of the thorny cross-state issues that arose in implementing state solutions. Some are trivial and some very substantial; some are specific to the Direct File two-part integrated process, and some are inherent to state filing.

- *Linked returns.* FileYourStateTaxes filed state returns as linked returns in MeF. Federal returns are linked to state returns via a submission ID, which was shared via the Direct File API. (States also expect linked returns to be submitted with a copy of the federal return, which software must specifically implement separately.) Even in testing environments, the state return had to be attached to a federal return that had been accepted in the test environment, or the linked return would fail MeF validation. This meant that the state testing environment was directly reliant on the federal testing environment, and if Direct File returns were not being accepted in testing, associated state returns could not be submitted in testing. Some states only allow returns to be e-filed if they are linked, though most will also accept an unlinked return.
- *Dependent relationships and dependent listings.* Direct File took the approach of not requesting the gender of dependents; you did not claim a ‘son’ or ‘daughter’ but simply a ‘biological child’ (or, perhaps, ‘adopted child’). But software must submit to MeF relationships from a specific enumerated list, which usually include genders (son, daughter, niece, nephew, etc), and do not include ‘child.’ Direct File’s approach to this issue of course had concomitant effects at the state level. Meanwhile, dependent listings could also be complex on state PDFs in general. While e-filed XML submissions simply list as many dependents as the taxpayer claims, all in one place, state PDFs vary in how many dependents can be listed on the core form, and on what a taxpayer should do with spillover dependents — whether these are enumerated on a specific form or freeform.
- *Treatment of birthdays.* Generally speaking, the IRS considers that a person attains their age a day before their birthday; for example, someone born January 1, 1961 turns 65 on December 31, 2025, according to the IRS. However, in certain cases where attaining age *on* the birthday advantages the taxpayer, the IRS applies this more common-sense rule; a child born January 1, 2009, for example, is still 16 on December 31, 2025 and can be claimed for the Child Tax Credit. Most states take the same approach as the IRS, but some do not. Usually, states that diverge from the IRS treat all ages as being attained *on* birthdays.
- *Non-resident alien spouses.* Under specific circumstances, depending on the immigration status of the taxpayer’s spouse, and in line with standard federal procedures, Direct File allowed taxpayers to file Married Filing Separately returns without a SSN or ITIN for their spouse (which is otherwise generally required). In some cases, these returns would come with a specific “non-resident alien” code; in other cases, if the federal tax law did not require Direct File to collect the non-resident alien status of the spouse, the code was not included. States vary in their treatment of these returns. Some require the “non-resident alien” code to be included for all MFS returns missing spouse TIN, even in the case that the Direct File

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return does not include the code. Some states do not accept e-filed MFS returns missing a spouse TIN at all, and these taxpayers had to paper file their state returns.

- *Attaching information returns.* Federal returns are submitted with XML representations of information returns (W-2s, 1099s) that contain withholding. State returns vary significantly in whether these XML information returns are copied onto the state XML submission. Many states request all the information returns, but some request only some of them, or none at all. (Some states require the information return XML to be repackaged into a new state format.)
- *W-2 Box 14 codes.* States use Box 14 on Form W-2 to report various state-specific provisions of interest — for example, deducted union dues or pension plan contributions that may be income subtractions in the state, or contributions to state family leave programs that may, like Social Security, be subject to excess withholding refunds. Some codes are relevant to taxpayers in Direct File’s scope, and some are not. State products had to determine which codes were of relevance, and then specify a custom list of Box 14 codes from the Direct File team, as all W-2 data was collected in Direct File. In some cases, states do not have a single standard for how these state-specific items are supposed to appear on a W-2, leaving employers discretion about how to report a given provision — causing further challenges for collecting this data.⁶⁹
- *W-2 Boxes 15-20.* State and local income and withholding, as well as the name of the state and locality, are recorded in Boxes 15-20 of the W-2. Clerical errors entering these boxes in Direct File were in practice more common than the teams hoped — perhaps because taxpayers did not see their state refunds on Direct File so did not notice their errors;⁷⁰ perhaps because employers genuinely send multiple copies of W-2 to taxpayers, some of which have Boxes 15-20 blank; and perhaps because taxpayers did not think the state/local information mattered on a federal product. Whatever the reason, errors occurred. State products eventually collaborated with Direct File to institute some validation measures on these boxes.⁷¹ But writing these rules was challenging since different input patterns may be normal in different states. Some states also needed validation on locality name in Box 20, with only an enumerated list of locality names being considered valid.
- *Editing federally-entered information return data.* In addition to the validation functionality described above, FileYourStateTaxes eventually created functionality for taxpayers to edit state-specific boxes from information returns on the state product (Boxes 14-20 on the W-2, Boxes 14-19 on the 1099-R, etc.). But, this created a

⁶⁹ In New Jersey, for example, paid family and medical leave payments to the state can be reported in Box 14 or Box 19. In New York, the state publishes a long list of the multiple acceptable abbreviations for New York City and Yonkers that can be used in Box 20.

⁷⁰ Suppose a taxpayer inadvertently left Boxes 15-20 blank, thereby indicating they had \$0 of state withholding. Upon getting to the end of a state return, they would certainly notice their error; rather than getting a refund, they would owe taxes, and would figure out why. But in the Direct File case, these taxpayers had already submitted their federal returns. By the end of the federal filing process, there was nothing to yet suggest anything was amiss.

⁷¹ For example, a strict validation that state withholding cannot exceed state income; or a warning (though not a hard block) that it is rare for state income to be zero in an income tax state.

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problem in states that do not request the information returns to be attached to the state return. Such states were looking at the copy of the W-2 attached to the federal return, and would find numbers on the state return plainly unsubstantiated by the information return taxpayers had included. Some of these states simply accepted this discrepancy, but others wanted to block editing of the state-specific boxes, thereby pushing these filers to paper returns. The only scalable long-term solution to any of the W-2 issues would be importing this data directly from IRS systems into Direct File.

- *Address formats.* Some states do not use the standard federal address format guidelines, with addresses limited to a different number of characters, or required to be broken across multiple lines according to specific rules. These introduced complexity in mapping information from the federal to the state return.
- *Testing ITINs.* Especially in year one, when the only data available to state filing tools was from the actual XML submission, FileYourStateTaxes inferred whether a given TIN was an ITIN based on whether it matched the numeric pattern for ITINs, which includes a specific range of allowed middle digits. The middle two digits of an ITIN are never below 50. But the MeF test environment does not accept returns with TINs where the middle digits are other than 00. Workarounds were therefore needed to correctly test ITINs, since federal returns had to be submitted with 00, but 00 cannot appear in a proper ITIN.⁷²
- *Community property states and MFS.* Six states with income taxes are community property states, which makes Married Filing Separately returns logistically very difficult. In practice, Direct File did not support Form 8958 (and likely would not have brought it into scope in the near future), thereby barring taxpayers from filing MFS at the federal level in those states. But, if Direct File were to support this form, the complexity on the state level could be immense.

4.3.3 Integrated solutions worked well for most taxpayers

The [Direct File 2025 report](#) and the [2024](#) and [2025](#) FileYourStateTaxes reports lay out the substantial evidence that the state API solution worked very well for most taxpayers, successfully building an experience that the teams called “two products, one seamless experience.”

Among those who did use the solutions, satisfaction rates [were 89-98% across participating states in 2025](#). FileYourStateTaxes, meanwhile, [reported that, in 2024](#), 90% of Direct File users went on to successfully file their state returns with FileYourStateTaxes, a figure that [dropped slightly to 89% in 2025](#). So, most Direct File taxpayers were using the state solutions and most were reporting very high satisfaction.

⁷² FileYourStateTaxes tested by manually editing the ITINs upon import from Direct File.

4.3.4 The two-part system was not good enough for a small minority of taxpayers

But satisfaction rates were only measured among users. **In FileYourStateTaxes states, 10% of Direct File users in 2024, and 11% in 2025, did not go on to successfully use FileYourStateTaxes.** (These numbers are not public for other states, and are also a bit harder to calculate in FAST states, where both Direct Filers and other taxpayers could have used the FAST eServices return without importing Direct File data. In states without integrations there is no straightforward way to calculate the completion rate, though it stands to reason, given the more complex user experience, that the conversion was lower still.)

We do not know for sure what happened to this 10-11% of taxpayers. They may have filed another way, or worse, they may not have filed at all. (States can request from the IRS microdata on which taxpayers used Direct File, and use this to conduct retrospective analyses on the state tax filing behavior of these taxpayers.) The [FileYourStateTaxes 2025 report](#) goes into as much detail as possible about the timing and causes of the drop-off, but ultimately is relatively inconclusive, given the aforementioned difficulty in tracking taxpayers through the pre-data-import phase of the product.

The 10% drop-off rate was small enough that states and partners were willing to call the model an unabashed success in year one. But the fact that, despite improvements to the user experience, the drop-off rate did not shrink in year two is notable; it suggests that the two-part federal-state experience might very genuinely not work for a small but non-negligible population of taxpayers. 10% may not sound like very much, but states have reported that, in general, only about 2-4% of federal filers do not go on to file their state returns. If most of the 10% actually did not file state returns, then the two-part system would be creating a tax refund access gap at the state level on the order of the size of the federal EITC access gap. In that case, what Direct File does for tax access on one hand it would be taking away with the other. Moreover, it would certainly eventually cause a crisis of confidence within partner state tax departments, who could rightly conclude that their Direct File participation put a damper on their own taxpayers' state tax compliance.

Given the drop rate did not decrease year over year, and given more time to reflect on the appropriate federal-state model, any future Direct File efforts should take seriously the possibility that, despite all parties' best efforts, the current model is not good enough.

This is all to say nothing of the issue of partial-year and non-resident returns. Direct File explicitly only supported taxpayers who lived and worked in one state all year. But many taxpayers move between states, work in multiple states, or work in one state while living in another. Net of reciprocity agreements, these taxpayers generally need to file multiple partial-year or non-resident state returns. But the overall Direct File federal-state architecture did not provide any obvious way to assign income to each of multiple states and thereby file multiple different state returns. **There was no clear path to expand support to those taxpayers with filing obligations in multiple states.**

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Finally, this is all to say nothing of the inherent clunkiness of the two-part process, which could be awkward for plenty of taxpayers, even if most navigated it just fine. Taxpayers had to spend time navigating a new log-in and new account on a separate product. Then, sometimes — in states that required an accepted federal return before data export — they had to wait to import their data while their return was pending in MeF.⁷³ On high-traffic days like April 15, given MeF performance under high loads, this wait could become quite long, even up to several hours, causing taxpayers significant anxiety.⁷⁴ And, if their state tax preparation revealed errors in the data they entered via Direct File, they could no longer go back and correct their already-accepted federal return.

Possible solutions are discussed in Sections 4.4.2-4.4.4.

4.3.5 Direct File was making fast progress with states, and was on a reasonable glide path to about 45 states by 2027

Several members of the Direct File team and Code for America teams attended state tax conferences each year between 2022 and 2025 — from when Direct File was just an unconfirmed policy idea, to shortly after its cancellation by the Trump administration.

In 2022, though it was a live policy conversation in Washington thanks to GetCTC, the Inflation Reduction Act, and the (as yet non-public) Treasury/White House policy process, the idea of a public tax filing tool or other similar reforms were largely simply nowhere on states' radar.

In 2023, shortly after the release of the Direct File report and the announcement of the pilot, some states were interested, but most — understandably — did not take seriously the idea that Direct File would actually launch in a few short months. Many still did not know what Direct File was, and were not especially inclined to have conversations about it.

In 2024, shortly after the end of the pilot and after the announcement Direct File would be made permanent, there had been a sea change, and nearly every state at least expressed some interest in joining the program, even if it wouldn't be immediate, and even if it was going to be a challenge. Many knew or suspected they would not get the project over the line on short notice for 2025, during an election year, when it was still a bit of a hot potato in Congress — but they expected it was more a question of when than whether.

⁷³ As discussed in Section 4.3.2, FileYourStateTaxes required taxpayers to have their federal returns accepted by MeF before they could export their data to the state filing product, whereas the FAST product did not impose this requirement. Of course, in the FAST states, on high-traffic days, taxpayers could in principle learn of an error that impacted their state return quite far into preparing the state return, or perhaps even after they had already submitted the now-apparently-erroneous state return.

⁷⁴ This delay was not due to Direct File, but rather the wait time for the federal return to be acknowledged as accepted by the MeF system. The delay affects any e-filed returns on high-traffic days, no matter the filing software used. That said, for software packages that file federal and state returns together, the wait period would be less salient.

In 2025, its cancellation aside, the idea of adopting Direct File was widely talked about as a fait accompli, especially among the front-line state tax department staff who would be most responsible for implementing it. Whether they were excited about it or not, it was being treated as just part of the list of things state revenue departments are responsible for.

Before the 2024 presidential election began to throw the entire project into doubt, about a dozen more states were already considered fairly likely to join Direct File in 2026, which would have brought the total to 37.

This entire story is told in more detail in [Chapter 1: the story of Direct File](#).

“All of this consensus was not magic; it took years of effort, patient communication with understandably-skeptical states, and a focus on ensuring that states’ needs would be taken seriously and centrally in the product’s development.”

In 2025, a conspicuous number of the participating states were blue; in fact, all but one (Idaho) had Democratic administrations. This might create the impression that Republican-led states were going to resist joining. In practice, though, the partisan breakdown of the 2025 states was somewhat misleading, for a couple reasons. First, most states by 2024 were interested in joining, but it was a question of whether to rush and get it done that year, or wait for the future. Democratic-led states got a full-court press via their governors from the White House and Treasury, while staff correctly assessed such an approach would probably backfire in Republican-led states. As a result,

many Democratic-led states were pushed over the line to advance Direct File in 2024, while many Republican-led states stuck with their instinct of moving a bit more cautiously. Second, there was an ex ante partisan imbalance in which states had FAST eServices returns already configured; of the 18 states with FAST eServices returns configured by filing season 2025, 12 were Democratic-led states. So, Democratic-led states were usually in a position to move faster.

In practice, many of the Direct File team members and other staff working on state recruitment heard plenty of interest from state tax departments in Republican-led states; but also heard that they were just not able to get it done for 2025.

All of this consensus was not magic; it took years of effort, patient communication with understandably-skeptical states, and a focus on ensuring that states’ needs would be taken seriously and centrally in the product’s development. But this work was doable, and it had the intended effect.

Of course, a reanimated Direct File may have a harder time coming back to states to pick up the mantle than the first Direct File team had in 2023: they will have to overcome the

double-skepticism of states who grudgingly decided to believe in Direct File round one, just to have it eventually blow up — exactly as plenty of people within the departments probably thought it would the whole time. On the other hand, the fact that Direct File worked once and was successful will tend to silence those skeptics who loudly didn't believe, in 2023, that the IRS could launch a functional product at all. And, in any case, the saga of Direct File is sadly far from the first time the IRS has ultimately disappointed state tax departments.

Much as states have gotten over federal failures before, if the IRS re-invests in state outreach and engagement, we believe the states will find the grace to do so again.

4.3.6 Federal Direct File scope and state scope

[Chapter 3: Direct File and tax scope](#) discussed the question of the 'stopping point' of Direct File — how many taxpayers should eventually be accommodated in a 'complete' Direct File, and how long might it take to get there?

An important aspect of this question is its impact on states. We have noted already that simple state situations tend to contain little to no new information beyond that already contained on a federal return — but more complex situations may imply increasing divergence between the returns. As a result, a linear increase in federal scope may yield an exponential increase in state scope. For example, a state may have a dozen additions and subtractions related to a specific type of income. When that type of income becomes in-scope for Direct File, all those additions and subtractions suddenly become relevant for the state filing products, where none were before.

This means that it matters quite a bit to states whether Direct File ultimately supports 80% or 70% of taxpayers, for example. While the marginal tax scope is increasingly difficult federally, it can be even more increasingly difficult, relatively speaking, at the state level. Moreover, a development roadmap that has federal scope largely complete within a couple years but continues to slowly add a few elements over time may look to states like an endlessly drawn-out development process, not slowing down so much as accelerating, and taking years to reach anything like a steady state.

In determining the endpoint of Direct File and the pace of development, the Direct File team should take into account the implications for states — which puts a thumb on the scale in favor of keeping the Direct File scope smaller (see [Section 3.5.1](#)).

4.3.7 The economics of custom solutions was an unsolved problem

When Code for America's FileYourStateTaxes team and federal stakeholders were engaging states about joining Direct File going into year two, FileYourStateTaxes was offering two years of completely pro bono, philanthropically-funded service. But states, naturally, asked about the longer-term costs of maintaining the solution beyond those years, if they chose to. In those conversations, the amounts states thought they could scrounge up in their existing budgets tended to be far below what it would actually cost to maintain the product

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in the long term. Moreover, states were generally operating under the assumption that development would be a one-time up-front cost, overlooking the ongoing costs.

During the early years of Direct File, we argued that this gap represented a solvable two-sided problem:

- *Costs would come down.* High uncertainty, up-front fixed costs, quick development timelines, and relatively few tenants at first would inflate development costs per unit in the first years. Over time, though, costs would decrease.
- *As public tax filing administration became normalized, state ability and willingness to pay would go up.* Direct File was, in part, a paradigm shift in the tax filing landscape. Historically, the costs of tax filing administration were borne predominantly by private tax prep companies and passed on to taxpayers in the form of filing fees — which also subsidized private profits. Direct File would achieve vast social savings by partially eliminating those profits, but would admittedly increase the direct costs of public tax administration, by shifting the administrative costs to the state. For the tax agency to take on a whole new function is a non-trivial task, in the long run, and would require new agency resources. In the long run, we thought, Direct File would effect this societal mindset shift, and thereby create the political will to appropriate additional funds to the tax agencies.

We still believe these arguments had merit. But neither process was moving nearly fast enough to solve Direct File’s medium-term problems, at least for some states.

The non-convergence of actual costs and willingness to pay would have been exacerbated by the scope issue discussed above. If Direct File opted for an expansive scope that it reached slowly over time, then states would have been stuck in the initial rapid-growth build stage for many years, given the exponential relationship of federal and state scope. The initial pro bono years would not, in this case, get states especially close to a stable baseline scope.

Admittedly, FAST states, who were already paying for their eServices returns as part of their larger contracts, may not have faced these issues.

A possible solution is discussed in Section 4.4.2.

4.3.8 Economies of scale

The experience of implementing state filing solutions in 2024 and 2025 highlighted a dynamic that was also relatively clear a priori: there are significant economies of scale to implementing multiple state solutions together.

Across both the FAST and FileYourStateTaxes implementations, most of the actual software in state filing tools is not state-specific: it is account creation and management, e-filing, monitoring, and import from the Direct File API. So much was common that, as noted above, New Jersey FileYourStateTaxes was implemented by a state team using the shared

non-state-specific infrastructure of the product; and, on the FAST side, significant portions of the Direct File implementation were run centrally out of the FAST headquarters office, rather than devolved entirely to state-specific staff.

Even if states' willingness to pay for Direct File solutions increased significantly, **it would still be highly inefficient for states to fend for themselves in implementing state solutions. There is a lot to be said for centralizing state solutions across one or a small handful of platforms, where the non-state-specific components can be reused, lowering costs for any given state.**

4.4 Next steps and recommendations

State filing is perhaps the area where a future Direct File team might most diverge from previous practice. In this section, we lay out a possible path forward.

- Section 4.4.1 lays out a broad framework for approaching state solutions.
- Section 4.4.2 proposes a new paradigm for state support in Direct File, in line with Option #4 from Direct File's original memo on state filing options (see Section 4.2).
- Sections 4.4.3-4.4.5 lay out ways to improve the existing state API approach.
- Section 4.4.6 argues not to pursue direct support in Direct File, Option #5 from Direct File's original memo on state filing options.
- Sections 4.4.7-4.4.9 address specific concerns of funding and implementation.

4.4.1 Do not compromise on state solutions or leave states in the lurch, even at the price of slowing adoption

During the summer of 2024, there was an active policy debate about whether to expand Direct File to states without a state filing solution, or perhaps to allow paid state solutions to access the Direct File API.

In our disparate roles at the time, we eventually posited that Direct File could have two out of the following three things:

1. Near-term coverage in *all* 50 states
2. A guarantee that the state component of Direct File is always free and public
3. A guarantee that there is always a state solution available for Direct File users

If you expand Direct File to all 50 states and insist that state solutions are free and public (#1 and #2), some states will end up with no solution at all (#3). If you expand Direct File to all 50 states and want to guarantee there are always state solutions (#1 and #3), you have to lower standards on what counts for a state solution, including, probably, letting private companies offer state solutions and charge taxpayers for them (#2). And, if you want to ensure there always is a state solution at a high standard (#2 and #3), there will be some number of states that are not supported (#1).

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The viability of this last option obviously depends to a degree on how many states we are talking about. But based on the widespread interest we were already seeing by the summer of 2024, we thought it would, within a couple of years, be a small number.

Based on this prediction, we believed then and believe now that this last option is the best. It is better to compromise on coverage, and have some states that are still excluded from the picture for several years, rather than compromise on the principle of what Direct File is. There are already too many half-public, half-free filing options available to taxpayers; in fact, for many, there is already a perfectly free federal solution and it's on the state return that taxpayers face sudden surprise fees. Compromising on #2 or #3 risks turning Direct File into just another one of these half-solutions. Direct File's greatest asset in a crowded tax filing landscape is its credibility as an always free, public option. Better to have the taxpayers of a few holdout states demanding their state give them access to a popular federal product, than to diminish the product's standing with all taxpayers by adding asterisks to "free" and "public."

That said, the implicit threat that Direct File *might* eventually be made available in all states regardless of whether states are ready did serve as a useful push for states to prioritize getting on board, and disavowing this possibility outright might weaken the federal government's leverage in communicating with states about the future of the program.

4.4.2 Give states the option to build solutions *within* Direct File

As discussed above, the state API solution Direct File pursued (option #2 from the five-option memo) had a couple of significant challenges:

- Conversion rates from federal to state returns, while high, were not high enough; some taxpayers seemed to be getting lost in the handoff between products.
- There was no clear solution on the horizon for multi-state taxpayers.
- Costs were going to remain potentially infeasible for some states.

Given the privilege of time to revisit the issue, we believe Direct File should explore pivoting to what had been option #4: allow states to configure their own taxes within the Direct File product. A taxpayer would, as in private software, be filing their federal and state returns in one unified product — improving conversion rates and opening the door to supporting partial-year returns. But states would remain masters of their destiny and their tax law, and federal lawyers would not have to make judgment calls on state taxes.

This proposal is a bit question-begging: how *would* you let states do this? Having explored the issue further, though, we believe the right set of back-end tools would permit such a collaboration. This set of tools, which we collectively call FactML development, are explored in more length in [Chapter 9: Direct File, fact graph, and a new way of building civic technology products](#).

Candidly, this method of state-federal collaboration is untested. Members of the teams that worked on Direct File and integrated state taxes broadly agree that the approach appears

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very promising, but success isn't assured, and any future team attempting this model should see it as an experiment.

In practice, even with a new suite of tools to make this collaboration easier, states may not currently have the staff they would need in order to configure state functionality in Direct File. This strategy would create a new market niche for technologists who can manage the technical aspects of these configurations for states. But this wouldn't leave states back where they started, economically — the costs of such teams would be far lower than the costs of product teams maintaining wholly separate products. The experience of supporting New Jersey in FileYourStateTaxes demonstrated clearly the degree to which many components of the state filing experience are common across states, with the state-specific tax questions and logic only a small part of the overall cost of the product. In a world where states configure their functionality in Direct File, they do not have to worry about the administrative issues of account management, architecture, and e-filing. Moreover, by building their logic directly into the Direct File fact graph, states would be able to skip the aspects of the software in which they retrieve facts from the XML and JSON payloads and build their own independent logic models.

Of course, the most likely implementation would *allow* states to consider the state API route if they so choose — especially in cases where states are already heavily invested in their own standalone state filing tools. But Direct File would recommend states adopt the in-product model, which would be better for taxpayers and usually cheaper for states.

Other policymakers and stakeholders of course may not agree with this recommendation to overhaul the state support strategy in Direct File. But it would be productive for the ecosystem to debate this question and come to some resolution in the nearer term, because there are implications for the next few years. If Direct File were to return one day with just the state API solution, states would be well-served to invest now in standalone state filing products, which they can plug in to Direct File when the time comes. If states will instead be able to configure their state functionality in Direct File, conversely, investing now in standalone state products would not be on the critical path, and could in fact distract from the optimal taxpayer experience.

4.4.3 For states not supported directly in Direct File, invest in a common platform for stand-alone state solutions

If the in-Direct-File solution does not work in practice, or if in practice a meaningful number of states prefer their state solutions to be standalone, we believe a future Direct File team would be well-served to find a way to provide backing for a standalone product that can accommodate arbitrarily many state tenants — something along the lines of FileYourStateTaxes in 2024 and 2025.

If states do pursue standalone solutions, most will of course use the FAST or RSI filing products that are already a part of their broader IT contracts. But some will not be able to or

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will not want to use these products — or at least will want to have another possibility on hand, as they examine their options.

FileYourStateTaxes was able to play this role to a degree in the early years. But the fact that it was ultimately entirely owned and governed by a private organization without public involvement, and wholly dependent on philanthropy, would limit its ability to play the role needed in the long term. **What the Direct File ecosystem would need is a product like FileYourStateTaxes that is ultimately owned and managed publicly — by one or more of the states using it.** The tech stack would need to be organized cleanly to separate state-specific and non-state-specific components — something FileYourStateTaxes was on its way to doing, though was not, in 2025, all the way there. The tech team in charge of non-state-specific components would answer to some set of the state tenants, and state-specific teams would liaise specifically with their state revenue department. The product would, in effect, be a more hands-on version of the “open-source toolkit” approach envisioned in option #3.

Whether this product would have to be a wholly separate legal entity or if it could be an independent project within a broader organization is not clear. What is important is that governance would be managed by the state owners.

A future Direct File team should consider working with senior IRS and Treasury stakeholders, as well as state tax stakeholders like the Federation of Tax Administrators, to help bring such a product into existence. But the importance of this project remains to be seen. If the vast majority of states either want to use existing FAST/RSI solutions, or to build their functionality directly in Direct File (as in Section 4.4.2), then this common platform perhaps need not exist.

4.4.4 For states not supported directly in Direct File, iterate on the integration model

In a world where some states continue to use standalone integrated solutions rather than building their functionality in Direct File, the state and federal implementation teams should consider improvements to the model, which might serve to improve the user experience and increase conversion rates. Some ideas to explore include:

- *Completing state returns before submitting federal returns.* Rather than submit a federal return and then get transferred to the state tool, taxpayers could complete their federal return, transfer to the state tool, and complete the state return — then submit both returns only when they are both complete. In this world, Direct File might show a checklist of one or more state returns to complete on the last page of the filing process. This reimagination would eliminate the issue of taxpayers completing federal but not state returns, and could create a pathway to support

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multiple state returns.⁷⁵ There would be information sharing and coordination challenges to solve regarding how to sequence return submission after completing all returns. This solution would also run into serious logistical challenges if a federal return were rejected — so this solution is probably only viable at the point at which expanded pre-population and perhaps pre-submission validations on the Direct File side essentially eradicate MeF rejects.

- *Providing state return information on the federal side.* In a lighter-weight version of the first option, taxpayers could perhaps see an estimate of their state refund while they complete their federal return, with state solutions providing an API that receives a de-identified fact graph and provides an estimated state refund. This would allow taxpayers to notice state-side errors on their federally-entered information and perhaps notice issues related to the state portion of their return, all before submitting their federal return. This solution might run into data privacy issues in the dynamic disclosure of even a deidentified fact graph, and would require state solutions to build a non-trivial API that does not currently exist.
- *Better state eligibility screening at the start of Direct File.* Some federal-to-state dropoff may be induced by taxpayers discovering only after completing Direct File that the state software does not support all their desired state tax provisions. Federal and state teams could collaborate to build more robust and interactive state eligibility screeners, to go at the front of Direct File, and more robust knockouts throughout the federal product, to prevent these cases from occurring.
- *Transmitting custom derived variables.* As discussed in Section 4.3.2, the Direct File API was in 2025 able to transmit basically anything from the Direct File fact graph to state filing solutions — but it would be helpful to states to also transmit custom derived variables, like hypothetical EITC calculations. The state and federal teams could work together to create a streamlined process for such requests. The open-sourcing of Direct File also enables states to themselves specify and test new calculations.
- *Ensuring faster responses in MeF.* Though this reform is broader than Direct File per se, the two-part filing process in Direct File lays into particularly sharp relief the unacceptably long time taxpayers can wait for acceptance notifications from MeF, especially on busy days. During normal periods, MeF returns responses within a few minutes — which can creep into problematic territory for state filing products, but is generally roughly workable. MeF's longer wait periods — including scheduled multi-hour downtime on weekends, and wait times up to several hours during busy periods — are not consistent with good taxpayer service in general, and with the two-part Direct File state filing process in particular, as taxpayers wait, sometimes up against an anxiety-inducing deadline, to export their data to their state filing products. MeF has an admittedly hard job in high-traffic times, handling millions of submissions an hour. But an information system in 2026 ought to be able to scale to

⁷⁵ It would also resolve the issue discussed in Section 4.3.2 of taxpayers not noticing W-2 Box 15-20 errors that they introduced on Direct File until they reached their state return product and the federal return had already been filed.

meet this demand. The IRS should be carefully tracking the distribution in MeF response times and setting strict service-level agreements for them.

4.4.5 Set standards for standalone state solutions

In a world where at least some states maintain standalone solutions for Direct File, we believe the Direct File team should provide some concrete oversight and standard-setting for them, in the interest of protecting the overall taxpayer experience of Direct File users.

In 2024 and 2025, Direct File provided essentially no guidance or oversight for state solutions. Direct File was too untested and the state solutions too nascent for the team to be in any position to insist on much of anything, and in any case, there were too many unknowns for the team to have set the right standards anyway. A future team would have the knowledge and the authority to set standards, improving the experience for all taxpayers and helping states ensure they are doing the best they can.

These standards *might* include:

- *Basic design standards.* State solutions should be mobile-responsive. State solutions should arguably also be bilingual in English and Spanish, and should provide in-app access to customer support — though these features are admittedly very expensive.
- *Basic process standards.* State product teams should include user research expertise and engage in some degree of regular user testing.
- *Completion and satisfaction rates.* States should collaborate with the IRS and publicly report the fraction of Direct File users in their states that are successfully completing their state tools, and should maintain a standard completion rate, of perhaps 90%. Direct File should also establish a standard process for measuring user satisfaction,⁷⁶ and a benchmark for state products to meet.
- *Data integration.* While Direct File allowed state tools to be unintegrated in early years, integration with the Direct File API should probably be eventually required.
- *Account integration.* As discussed in Section 4.3.2, states' approaches to account management can have serious user experience implications. In the long run, states should probably be required to either reuse Direct File's authentication, to allow filing without explicit state-side identity verification, or to empirically demonstrate that their account management processes are not a barrier to completing a state return.

The Direct File team might also create a shared community of practice for states developing these solutions, for cross-pollination of best practices.

We believe meeting these standards should be presented as obligatory for participating states, perhaps with a grace period to meet them, with the implicit enforcement mechanism

⁷⁶ Though Direct File collected and reported satisfaction rates from the various states in 2025, there was not a common standard on how to define and collect this measure, making the statistics hard to compare across implementations.

being that the states could be removed from Direct File and lose their access to the API. As we argued in Section 4.4.1, maintaining a high level of quality is critical to Direct File's reputation and long-term viability.

4.4.6 Direct support by the Direct File team is probably still out of the question

The one solution from Direct File's original menu of options we do not endorse is option #5 — direct support for state solutions built in Direct File by the Direct File team. Though Congress might be able to solve the literal authority issues with statute, we believe the bureaucratic and logistical aspects of federal employees building state functionality are probably thornier than they are worth. Building a Direct-File-like experience requires interpreting tax law in non-obvious ways. Not only does the IRS lack the expertise to evaluate state law, but to do so could create an interpretation with which state officials could disagree. We believe one of the more state-centric solutions is the best way forward for Direct File and state taxes.

4.4.7 Congress should provide resources for state filing

Whether we end up in a world of in-Direct-File solutions or remain primarily in a world of standalone solutions, there will still be non-negligible costs to states to participate in Direct File. As enthusiasts for public filing and a robust tax administration apparatus, we of course believe it would be money well spent for departments to prioritize these projects within their funding, or for state legislatures to specifically fund them. But, as a practical matter, we also think it could be wise for Congress to provide funding to states.

For one thing, this would simply help accelerate adoption. As discussed in [Chapter 1: the story of Direct File](#), it was a logistical challenge keeping all the various components of Direct File moving forward at the same speed in order to launch in 2024. Even though many state departments or state legislatures would be perfectly happy to allocate funds, or could eventually be convinced to do so upon seeing initial results, the timing could be challenging. State funding priorities are often set years ahead of time, and any philanthropic bridge funding might run out before state funding could kick in. Still worse, states might get uneasy about the mismatch between short- and long-term funding and get cold feet about joining at all. This unease would only be heightened by states' likely additional reticence to prioritize long-term investments in a reanimated Direct File, after watching the first iteration disappear less than two years after it was announced. Congress, by making funds available universally up front, could solve a lot of problems borne of the timing of funding availability and long-term uncertainty.

For another, the amounts of money involved would simply be easier to win at the federal level. A grant program that provided each state \$1 million per year for their Direct File implementation would cost up to about \$40 million a year for Direct File — which would

increase the overall Direct File budget by less than 20% once at scale.⁷⁷ But \$1 million per year would be a very significant amount of money for most states. Informally, states often estimated offhand the amount of money they could dig up for the project would be in the low six figures. And \$1 million annually would likely be well more than enough to cover the technology costs of state solutions in most states.

4.4.8 Keep the front door federal

In the aftermath of Direct File's cancellation, there has been some enthusiasm for the idea that states should keep the party going by providing their own, standalone state direct filing tools, that they would promote directly to taxpayers. And even during Direct File, sometimes partner states, understandably excited about and proud of their state filing solutions, promoted these directly to taxpayers as a great way to get started with tax filing.

There are a few rare cases where a state tool might serve as the front door. The most obvious are cases where a taxpayer is eligible to claim state tax benefits, but is not required to (and does not stand to gain from) filing a federal return — for example, zero-income taxpayers with children living in states like Minnesota, Colorado, New York, or New Mexico.

But these exceptions are few and far between. In the vast majority of cases, we believe efforts to put state filing first are mistakes. We should broadly consider ourselves lucky that the U.S. tax system has become as integrated across federal and state systems as it is, with most taxpayers able to submit both returns in what feels like one process; it is easy to imagine a world in which federal and state returns are two separate chores, two separate systems for taxpayers to access. Instead, we have what civic tech advocates might call an effectively “integrated benefits application,” with both returns able to be prepared together. This is progress we should jealously guard. Any efforts to create separate state front doors to the system will serve to decouple federal and state returns. Even if such efforts improve access or save some taxpayers money in the short term, they will create more burden and more access gaps in the long term.

In nearly all cases, taxpayers should be filing federal and then state returns, and states should help underscore and highlight this dynamic.

4.4.9 Special cases: Puerto Rico, Americans living abroad

Puerto Rico taxes represent a challenging special case for the Direct File paradigm. While generally taxpayers do federal returns first and attach federal information to the state return, in Puerto Rico it is generally the other way around: taxpayers must complete their P.R. return and attach it to their federal return. The Direct File team had not, as of 2025, done sufficient discovery to determine if or how this process could be accommodated.

⁷⁷ Taking as the overall annual budget the \$240 million figure given in the [May 2023 report to Congress](#).

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Americans living abroad are another challenging special case, which [attracted significant attention from lawmakers in 2024](#). While again the Direct File team had not done sufficient discovery on the issue by 2025, it is likely that these taxpayers would introduce a variety of challenging edge cases at the intersections of U.S. and other countries' laws, including complexities introduced by bilateral tax treaties.⁷⁸ These edge cases would also likely raise legal questions that the IRS Office of Chief Counsel would not be readily prepared to weigh in on. Such issues don't preclude Direct File's support of Americans abroad, but they do make it more daunting than just adding another state.

⁷⁸ See, for example, the [U.S.-India Tax Treaty](#).

5. Direct File and identity verification

Gabriel Zucker, Chris Given

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Summary

- Direct File was classified as an IAL2 system, which meant that taxpayers had to undergo rigorous identity verification procedures to use it. Identity verification was a barrier in 2024 and 2025.
- Direct File's classification was, on its face, an accurate implementation of NIST 800-63-3, the government-wide guidance on identity verification at the time. The fact that it was the correct implementation suggests issues with the NIST 800-63-3 guidance in practice (5.1). The Direct File classification also introduced de facto inconsistencies between IRS's treatment of public and private tax filing software (5.2).
- Because of its IAL2 classification, Direct File had to use the private service ID.me to identity-proof taxpayers, as ID.me was the only service then able to implement IAL2 at scale. Details of ID.me's implementation introduced further barriers on top of the inherent barriers of IAL2, which might have been somewhat ameliorated by the use of Login.gov, if that service had been ready at the time. (5.3)
- Next steps for government digital identity in general:

5. Direct File and identity verification

- NIST 800-63-4, the newest revision to the government-wide guidance, was released in 2025. It makes improvements to NIST 800-63-3 on some fronts, though does not fully resolve the issues. (5.4.1)
 - Culturally, the relationship between NIST and other federal agencies lends itself to buck-passing of risk assessments, which tends to lead information systems to be overly restricted. This culture must change. (5.4.2)
 - Login.gov is a vital service, which needs to provide robust offline fallbacks for users who fail online identity verification, and must continually improve as it makes verification as easy and equitable as possible. (5.4.3)
 - Next steps for Direct File in particular:
 - Direct File should consider reclassifying portions of functionality at IAL1, in light of NIST 800-63-4 (5.5.1), and creating alternative non-logged-in service patterns. That said, the growth of pre-population functionality makes this choice less clear cut than it otherwise might be (5.5.2).
 - Direct File should adopt Login.gov as an option for identity verification. (5.5.4)
 - This entire section is a point-in-time snapshot of the identity verification space; generative artificial intelligence is very likely to vastly disrupt the entire ecosystem. This may well make many of our specific comments here irrelevant. (5.6)
-

Direct File required taxpayers to clear a high standard of identity verification, which was a meaningful barrier to usage (the Direct File team [wrote bluntly in 2025](#) that “identity verification deterred taxpayers”) and a [point of some controversy](#). This chapter explores why Direct File was classified the way it was and what steps could be taken to ameliorate the impact of the barrier in the future.

But while there are some steps that can and should be taken within the confines of Direct File, **the problems with identity verification and digital government services extend far beyond Direct File or the tax system**. As we will lay out below, **many of these solutions must occur at a government-wide level**, and as such are beyond the scope of tax access work in general, or this report in particular.

5.1 NIST 800-63-3

Online authentication protocols throughout the federal government are governed by NIST Publication 800-63 — as of Direct File’s birth, the then-seven-year-old revision 3, or 800-63-3. Publication 800-63 lays out three axes along which an online interaction may be authenticated: (1) identification assurance level (IAL; is this user the person they say they are?), (2) authentication assurance level (AAL; is the person who is currently using the account the same person who created the account?), and (3) federation assurance level (FAL; a dimension that comes into play when verification is mediated through a third party). For each of these, 800-63-3 defines three levels of assurance — level 1 (low/no assurance),

level 2 (medium assurance), and level 3 (high assurance). We are interested here in IAL, verifying whether a person is who they say they are.

When it comes to IAL and Direct File, NIST 800-63-3 has two notable issues:

- **IAL1 and IAL2 are in practice quite far apart.** IAL1 essentially constitutes no identity assurance whatsoever. Donald Duck can create an account using Donald Duck's address and the email donald.duck@gmail.com and assert he is Mickey Mouse — and this is perfectly fine under IAL1. IAL2, meanwhile, generally⁷⁹ requires showing a government-issued photo identification in such a way that the Identity Provider (IdP, the service that is performing IAL verification) can confirm that it matches the face of the person holding it, which can be challenging in a digital context. Even if Donald Duck is using an address and email address well-associated with himself from prior interactions, even if Donald Duck is providing tax information about himself that only Donald Duck has, and even if the risk of fraud is vanishingly low — none of this sufficiently proves Donald Duck is Donald Duck under IAL2, unless he can also show an ID. IAL3, meanwhile, is for in-person verification routes — ultra-sensitive use cases, in which the identity verification cannot be mediated online at all. In practice, the ultra-low bar of IAL1 and the ultra-high bar of IAL3 tend to mean any online service with any risk whatsoever was classified as IAL2 under 800-63-3.
- The authors of the NIST guidance might respond that the above is a fundamental misreading. Indeed, **NIST outlines a concept called “compensating controls,” which essentially give agencies latitude to amend the margins of IALs according to the specifics of the use case. But this is incredibly challenging in practice.** For one thing, individual information security officers at agencies are understandably loath to be seen as playing around with government-wide NIST guidance, formulating an agency posture that is below the government-wide standard. For another, the categorical approach of IAL1, 2, and 3 is fundamentally inconsistent with the probabilistic, risk-based approach implied by the “compensating controls.” In practice, IdPs proof users to specific levels of the categorical approach, and these proofings are re-used across applications. The idea that separate applications might have bespoke proofing levels (according to compensating controls) has its own advantages, but it upends the entire logic of the categorical system that NIST itself created. If agencies relied heavily on compensating controls, then a user who proofed their identity at IAL2 for one use case might still have to start from square one for another use case, and it would be essentially impossible for IdPs to say, for example, that they “support IAL2.” Which IAL2, with which controls?

5.2 Direct File's IAL classification in context

The IRS determined in 2023 that Direct File should be classified as IAL2 under NIST 800-63-3. (This meant it would use ID.me, for reasons discussed in the next section.)

⁷⁹ This is a simplification; IAL2 allows other methods of authentication. But in practice this is usually the method, and the other methods share similar levels of rigor.

The rationale did not have to do with confirming the return was being filed by the person they said they were; indeed it had nothing to do with all of the functionality up through clicking submit. Rather, it had to do with what happens after submission. After a taxpayer submits a return to MeF, their return is either accepted or rejected according to one of thousands of business rules, which may validate the submitted return against other IRS data about the filer. For example, MeF may reject a return because the taxpayer already filed a return or because records show the taxpayer had received Advanced Premium Tax Credit payments (which were not adequately represented on the return). Through these reject codes, Donald Duck may file a return pretending to be Mickey Mouse, and thereby receive back information from MeF about whether Mickey has filed, or whether Mickey received the Advanced Premium Tax Credit. This would constitute, according to the IRS, an unauthorized disclosure of Mickey's federal tax information to Donald Duck. And so, in order to access these MeF reject codes, the taxpayer must prove they are indeed Mickey Mouse.

Now, given that the sensitivity of data being released via MeF reject codes is relatively low, and given the amount of information a person provides via their tax return is relatively high, a sensible implementation might use other information from the tax return to establish a sufficient level of confidence in the user's identity. The IRS in fact requires prior-year adjusted gross income (AGI) or self-select PIN as an authentication attribute on the return. The IRS could assess that a return with the correct AGI or PIN has a low probability of being fraudulent, and a reject code, a low-risk piece of data, could be issued in response.⁸⁰

But, it is simply not how the logic of IAL works. IAL does not live in a world of risk assessments and probabilities; it lives in a world of categories. **Since any information was being released at all via MeF reject codes, it stood to reason under 800-63-3 there ought to be some identity control, and so the only sensible category for Direct File was IAL2.**

Critics noted then and would note now that, though this logic may be a valid interpretation of NIST 800-63-3, it is inconsistent with the IRS's actual policy toward other software providers. Taxpayers using private tax software like TurboTax or TaxSlayer can use the products and receive their MeF reject codes without going through IAL2 verification. Nominally, in classifying Direct File, the IRS drew a distinction: the software companies themselves were the ones accessing MeF, and officers of those companies were proofed at IAL2; what the companies did with each taxpayer's data was the companies' problem. With Direct File, on the other hand, the government was giving individuals access to MeF, and so those individuals, too, needed to be proofed at IAL2. But this is obviously a distinction in search of a difference, at best. In practice, if Donald Duck wants to know whether Mickey Mouse filed, and Donald has enough information to spoof Mickey's return, Donald can file that return through TurboTax and receive the information he wants back from MeF. But the

⁸⁰ AGI and self-select PIN have their own challenges as authentication measures — but, if they were to be removed, there are others. For example, perhaps if a taxpayer is filing using the same contact information as in a number of past returns, or if the income data a taxpayer provides matches IRS records, the IRS can be confident enough to return MeF reject codes.

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mediation of data access via third parties made it easier to obfuscate the nature of the implicit risk assessment.

Keep in mind that the IAL2 classification was premised solely on the sensitivity of these MeF reject codes. Once Direct File was implemented with all taxpayers proofed at IAL2, however, it became trivial to import additional data from the online account, like prior-year income, or IP PINs. This information is also protected at IAL2, which is as it should be; the data in the online account is much more sensitive than the MeF reject codes are, and it is by definition provided prior to filing, making it impossible to use the contents of the return to assess fraud risk. But the decision to make Direct File IAL2 predated any notion of using the online account data.

As noted, the IAL2 classification was not premised on preventing refund fraud. An IAL1 product may have needed to introduce some measures to detect and prevent such fraud. Implemented at IAL2, though, the product inherently had very strong fraud protections, and Direct File consistently saw a far lower incidence of fraudulent use than any other DIY filing option (although this is partially a function of bad actors tending to prefer the path of least resistance).

5.3 ID.me, Login.gov, and other IdPs

To implement Direct File at IAL2, the IRS needed an identity provider (IdP) to proof users' identities at the required level.

In late 2023, there was essentially one provider operating at scale and able to provide IAL2 proofing for government services: ID.me. Moreover, this is the provider the IRS was already using for its online account.

IRS's use of ID.me, then and now, has issues. GAO in June 2025 [published a report](#) highlighting that IRS's oversight of ID.me was limited, to the point that IRS did not independently establish goals for pass rates and data privacy.

Meanwhile, Login.gov is a public IdP which stood to have a few potential advantages over ID.me: (1) Login's user interface is arguably more accessible, (2) Login provides more in-person fallback proofing mechanisms, including, for example, [at post offices](#), (3) the option of Login means users are not forced to trust a third party with their personal information, and (4) Login is subject to more government oversight and has greater mission alignment, as a public institution. This last point is probably the most important; the fact that the government owns Login.gov means the government has more power to understand the barriers it creates, iterate upon it, and improve it. That said, the differences between Login and ID.me should not be overstated: using Login.gov IAL2 would still leave verification for Direct File far more onerous than for other tax software, which generally does not impose IAL2 verification at all.

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As of 2023, at any rate, Login.gov did not support IAL2. [They did by October 2024](#), and [Congressional champions pushed Direct File to switch](#). But the switch could not happen immediately because of additional technical and security work required by the IRS and GSA teams. However, internal roadmaps expected that Login would be available as an option to authenticate for Direct File by filing season 2026.

5.4 Next steps for government digital identity in general

5.4.1 NIST 800-63-4

As discussed above, a big problem here is the NIST standards.

NIST had been working on NIST 800-63-4, a revision to 800-63, since roughly 2020. After two drafts released for public comment, **the final revision was finally released on August 1, 2025.**

The latest draft makes some improvements from version 3, with regards to the issues discussed above:

- **The draft partially fixes the problem of the gulf between IAL1 and IAL2.** IAL1 is redefined as a new level of assurance higher than the 800-63-3 IAL1 but lower than the 800-63-3 IAL2 — an IAL1.5, as it were. (The 800-63-3 IAL1 is essentially renamed in 800-63-4 as a “no proofing” level, or colloquially, IAL0.) In this world, products are not forced to pick between two highly disjunct and far apart options. They can pick (the new) IAL1. (As we discuss below, this could have been an option for Direct File.)
- **The guidance doesn’t, though, make meaningful progress on the conceptual inconsistency of a discrete authentication paradigm (i.e., IAL 1, 2, 3) with a probabilistic risk-based paradigm (e.g., compensating controls) layered on top of it.** In fact, to a degree, it makes it worse. It contains detailed language about fraud mitigation measures (800-63-4 Section 3.2, and especially 3.2.1) that appears to require agencies to layer additional assurances over the categorical approach. Fraud management is described not as an outcome of identity verification, but as if it were a wholly orthogonal issue. As [one of us noted in a public comment](#), this exacerbates the philosophical tension of the whole approach. Categorical and continuous approaches to identity each have their advantages and disadvantages; the NIST guidance continues to try to have its cake and eat it too, seemingly ignoring the realities of how individual agencies digest this guidance.

This latter point is a government-wide guidance problem that will ultimately require a government-wide solution approach. Will agencies simply typologize their use cases into discrete boxes of IAL0, IAL1, IAL2, IAL3; or will they do this and *also* define some analogous level of assurance along the essentially-equivalent question of fraud controls? If the latter, how can these assessments be made standard across uses? How does an agency determine

if IAL2 plus X fraud control is sufficient for a use case that requires IAL2 and Y fraud control, when X and Y are not standardized?

5.4.2 NIST, agencies, and responsibility

Regardless of what the NIST guidance actually says, there is the cultural and anthropological problem of how agencies interpret it.

Currently, for a combination of reasons, security decisions often end up getting stuck in a circle of buck-passing. NIST will say that 800-63 cannot substitute for decisions made with the full context of an agency's threat model, and agencies are free — and indeed encouraged — to adapt it for their use cases. Agencies will say their hands are tied because they are bound by NIST, and really, how would an agency official defend unilateral straying from NIST? Within agencies, information security officers are asked to prioritize security, but executives are not empowered to make judgment calls accepting risk on the agencies' behalf where needed. Hanging over all of this, inspector generals stand ready to assess decisions from a standpoint weighed heavily on the side of procedural compliance rather than outcomes.

It is this constellation of issues that causes systems like Direct File to adopt a posture that is misaligned with real risks, often substituting having checked the box for actions that could more effectively protect data security. **Addressing these issues will require cultural realignment across the federal government, probably driven centrally by OMB and the White House.**

5.4.3 Continuously improving IdP with offline fallbacks

For whatever set of IAL standards are promulgated, it is critical to have an IdP that implements the proofing standards as easily and equitably as possible. The IdP should be constantly assessing whether users are making it through the identification process, and, if not, why and where they are failing. The IdP should be continuously improving its design and its functionality to ensure more legitimate users can pass, with a particular eye on marginalized populations. This likely includes creating a variety of pathways to verification, including offline fallbacks — like in-person options at Post Offices or other government locations — for those who may struggle with the online process. Issuing cryptographically verifiable credentials like mobile drivers licenses is also a promising avenue of exploration. And the process needs to be transparent, with honest assessment of progress and areas of weakness.

Login.gov, as a public service, is the most sensible place for this work to occur. It will be an ongoing project requiring ongoing investment to ensure it lives up to its mandate.

5.5 Next steps for Direct File in particular

Section 5.5.1 considers the possible reclassification of Direct File at a lower IAL. For reasons discussed in Section 5.5.2, though, such a reclassification would become less and less important over time. Sections 5.5.3 and 5.5.4 broadly assume that such a reclassification does not occur, and explore what else might be done and what the implications would be for Direct File.

5.5.1 Reclassifying portions of Direct File

As discussed above, NIST 800-63-4 redefines IAL1 far above its 800-63-3 assurance level. This means, almost by definition, there are plenty of systems that were previously classified as IAL2, that should be reclassified at IAL1. **There is a strong case that the core Direct File functionality (not including functionality based on non-MeF IRS-held data, like Data Import and One-Step Signature) is one of them, and should be reclassified at IAL1**, given the relatively low sensitivity of disclosures via MeF reject codes. (As discussed in Section 5.5.2, though, the fact Data Import and One-Step Signature would not be included in the IAL1 product lower the impact of such a change.) We believe it would in principle be worth reassessing Direct File’s IAL level if the service were reanimated in an 800-63-4 world.

If this baseline Direct File functionality were reclassified, **it would introduce an interesting design challenge within the product: taxpayers would have to select between an IAL2-verified experience with pre-population, and an IAL1 (unverified) experience without it.** One possible approach to this problem was explored in [Code for America’s early 2023 notional prototype of a Direct File system](#). That prototype encourages taxpayers to select the IAL2 experience, but gives them the option of continuing unlogged-in. Throughout the experience, when taxpayers are asked for information that would in the IAL2 state be pre-populated or automated, they are prompted again to consider logging in, and can escalate to the IAL2 path. Perhaps a taxpayer is being asked to enter their dependents, and does not want to go through the trouble of entering this information, which the IRS already has from last year. Well, on the dependents start page, they can indicate this, and switch over to the IAL2 path.

The Code for America prototype also proposed the creation of one additional service pathway. Suppose a taxpayer is using the IAL1 product. They successfully enter their family information, but they get stuck on the income section — like many new and intermittent filers, they can’t find their W-2s. But they also fail to get through the identity verification process. This taxpayer plainly can’t file a full return; their income information is missing. But they also have entered valuable information — information that could be used, in concert with IRS income data, to issue at least some of a taxpayer’s refund (in a sort of “second-best” return; see [Chapter 14: Non-filers](#)). Perhaps Direct File should create a pathway for this taxpayer to file their partial return, with the intention of additional data being automated behind the scenes. The motivating logic is that getting *some* information from a taxpayer is better than getting nothing.

5. Direct File and identity verification

That said, all these redesigns rely on the reclassification of the Direct File baseline functionality — and the probability of such a reclassification happening is realistically quite low. The “security ratchet” is real, and it is very hard for agencies to be seen as lowering the standard of a system, even if the updated guidance validates the choice. And effecting the culture change so that agencies *can* do so is a problem much bigger than the IRS or Direct File, as discussed in Section 5.4.2.

5.5.2 Pre-population makes the ID verification problem smaller

While the current IAL classification of Direct File is a liability, the growth of pre-population in the product limits the extent of the problem. As noted in Section 5.2, pre-population does in fact reflect a sensitive disclosure of taxpayer data, which is (and should be) classified as IAL2. So, as pre-population grows ever larger, the benefits to using Direct File in the IAL2 logged-in state grow larger, too; the barriers due to ID verification would eventually grow smaller than the barriers *avoided* by using pre-population in the product. As such, the IAL2 path would become the default, standard Direct File experience. Setting up baseline IAL1 functionality is really about setting up a secondary pathway for a special set of taxpayers with particular barriers to identity verification.

It is still worth creating the IAL1 path described above. But the growth of pre-population makes this less of an urgent issue than it might otherwise be, and less urgent than it was, for example, in the first year of Direct File.

5.5.3 Non-viable service patterns

When the IRS first determined that access to MeF reject codes would be classified as IAL2 under Direct File, the Direct File team considered an alternate design, in which taxpayers would use Direct File without IAL2 verification, and would be prompted to verify if and only if they received a reject code. This team declined to pursue this path, and we believe this was the right choice. It is true that most taxpayers do not receive a reject, and this would have created a smoother path for that majority. But the user experience would be *far* worse for the sizable minority whose returns are rejected. Going through a rigorous identity verification process post-submission, having finished a return, is plainly unintuitive to taxpayers. And Direct File, due to the IAL2 restrictions, would barely be able to explain what it means for the return to be rejected, much less what a taxpayer could do about it. It would raise the prospect of lots of taxpayers simply not resolving their rejects, and perhaps even thinking they had filed their returns when they had not done so. However, Direct File’s Digital Identity Risk Assessment (DIRA) paperwork is configured to permit this option should it ever make product sense.

5.5.4 Adopting Login.gov

Unlike when Direct File was initially being developed in 2023, Login.gov now offers IAL2 functionality. **It would be sensible for the IRS to adopt Login.gov** for Direct File (and Online Account) — probably as another option alongside ID.me for minimal disruption to existing

5. Direct File and identity verification

users. (This is likely to happen for Online Account prior to any foreseeable reanimation of Direct File, although the disruption of operations at the IRS and GSA makes the timeline unclear.) **Login.gov, as a public service subject to public accountability, should be positioned as the default ID verification service for new users.**

[As GAO recommended](#), the IRS should also exercise independent oversight of ID.me.

5.6 Impacts of generative artificial intelligence

All of the above assumes that the overall threat and technology landscape remains broadly as it exists today. As we write this in 2026, however, generative artificial intelligence is poised to disrupt the entire problem space of identity verification.

Generative AI is probably very near, or even already at, the point that it can spoof the high-bar standards of remote IAL2 proofing. We do not pretend to know what comes next for remote identity proofing in this changed world, and how it will change the equity, accessibility, and reusability considerations discussed here. We merely offer the comment that all of the above may be moot quite soon, and certainly by the time Direct File may be reanimated in a future administration.

The principles will still be the same, though. Direct File will need to find a way to set up the right level of assurance and consistently iterate to ensure and promote access. Across the government, reforms and additional guidance will be needed to reconcile the categorical and continuous approaches that are both implicit in NIST guidance.

6. Direct File usage and cost levels: how to interpret 2024-2025, and what to expect moving forward

Gabriel Zucker, Chris Given

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Summary

- Direct File had 1% take-up among eligible taxpayers in both 2024 and 2025. 2025 take-up was significantly hampered by the Administration’s sabotage of outreach efforts, driving up the service’s cost per return. Actual costs in 2025, though, validated prior estimates. (6.1)
 - Based on the experience to date, in an alternate world where Direct File had been supported by the administration and had continued to develop, we project there would have been nearly 10 million returns a year by filing season 2028, at a cost per return of \$12. (6.2)
 - Direct File had not answered the question of its target usage: what would be enough usage to justify its ongoing existence? We believe Direct File should probably have targeted a modest cost per return figure, perhaps with target usage weighted toward certain priority populations. If Direct File’s goal were net social savings (cost per return below average cost to file), it would have already achieved this goal in 2025. (6.3)
 - Direct File users in its early years tended to be young, single, childless wage earners. Because this was the user base, family credit claims tended to be lower and therefore refunds smaller than the population at large. (6.4)
 - Per capita Direct File usage varied only somewhat modestly by state in 2025. States that had participated in year one had higher usage in year two, as did states where larger fractions of the population self-prepare their returns. (6.5)
-

140,000 returns in 2024 and 300,000 returns in 2025 were filed using Direct File. Whether those are big or small numbers, how much one could expect those numbers to grow in the

6. Direct File usage and cost levels

future, and how big they would need to grow to make the project worthwhile — these were all hotly debated topics. We try to put the numbers here into some perspective, so that future policymakers can make accurate predictions and plans.

The estimates here are inherently imprecise, and we encourage readers not to become too fixated on specific numbers. The all-important cost-per-return figure in particular can fluctuate wildly depending on minor differences in assumptions and methodology. Instead, this chapter is intended to provide high-level orders of magnitude, and ways of thinking through scaling a new service.

Sections 6.1 and 6.2 examine actual and predicted future usage. Section 6.3 positions these numbers in the context of what Direct File usage “should” look like, in order to be politically and substantively sustainable. Sections 6.4 and 6.5 explore a bit more about who actually used Direct File in its first years.

Keep in mind throughout that, because many people can appear on the same tax return, there are approximately 165 million tax units in the United States — or about half as many tax units as people. When we speak of ‘number of eligible taxpayers,’ we are speaking about tax units, which is to say the group of all the people who file a return together. (‘Tax units’ are often referred to colloquially as households or families, though this is technically incorrect, as a household or a family can contain multiple tax units.)

6.1 Usage in 2024 and 2025, in context

The below table summarizes Direct File’s scope and usage in the first two years.

Filing season	% of tax units in covered states in scope ⁸¹	% of USA pop. in covered states	% of all US tax units in scope	# of tax units eligible	Returns filed	Take-up rate	DF cost ⁸²	DF cost per return
2024	21%	44%	9%	15.4M	140K	0.9%	\$24.6M	\$176
2025	29%	66%	20%	32.2M	300K	0.9%	\$41M	\$137

A number of caveats and clarifications are in order:

⁸¹ This is based only on federal scope. Any additional scope restrictions due to associated state filing products are not included. That said, as discussed in [Section 4.3.2](#), state products’ scopes were designed to support the overwhelming majority of Direct File users in the states.

⁸² From the budget and costs section of the [Direct File 2025 report](#), which is aligned to filing season and not fiscal year. Costs here do not include costs of state solutions, which ultimately should be included in a holistic appraisal of Direct File. There is also some ongoing debate about what overhead incurred by other portions of the IRS in at least partial support of Direct File should be charged to the project, versus to general operations.

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- *Observed 2025 usage is misleadingly low.* Prior to the election, as documented in a [late 2024 GAO report](#), the Direct File team projected 900K-3.7M Direct File users, which would translate to about 500K-2M returns filed. The Code for America team estimated the take-up rate among eligible taxpayers would triple, yielding about a million returns. After the 2024 election, though, the nature and priorities of the government overseeing Direct File changed dramatically. As documented at length [by the Coalition for Free and Fair Filing](#) and the Awareness and Adoption chapter of the [2025 Direct File report](#), the IRS and Treasury largely abandoned plans to promote Direct File, efforts that would be critical for a still-nascent program. This damage was exacerbated by pervasive news reports suggesting Direct File had already been canceled early in the filing season, as well as the widespread perception that the new administration could not be trusted with the fledgling tax filing tool. Followup product surveys at the federal and state level both received significant volumes of Direct File user comments acknowledging that although they had ultimately chosen to use Direct File, they harbored serious misgivings due to DOGE, Elon Musk, and the new administration.⁸³
- *As a result, cost per return in 2025 is misleadingly high,* as the fixed software cost was distributed over a deflated number of returns. Actual 2025 variable costs were also slightly inflated by the unexpectedly low usage, since Direct File spent money and resources training customer support and building infrastructure for more volume than was ultimately needed, inflating cost per return still further.
- *Year-one eligibility was retroactively revised downwards in 2025, making circa-2024 calculations misleading.* In 2024, IRS estimated 19 million tax units would be eligible to use Direct File,⁸⁴ which would represent about 26% of taxpayers in covered states. Internally, though, the precision of these estimates was not a priority at the time. In year two, the IRS and Treasury invested in more precise eligibility estimates, yielding the 32.2M figure for filing season 2025 publicly [released in late 2024](#). As part of this exercise, the team also revised the filing season 2024 figures downward, to 15.4 million, as documented in the [2025 report](#) — or 21% within participating states.
- *Year-one usage was depressed by late availability and early close.* During the 2024 pilot, Direct File only began opening to the general public in February, and was only fully open by the second week of March, by which point about half of taxpayers who would file by April 15 had already filed.⁸⁵ Direct File also closed at the filing deadline in April, meaning that the roughly 15% of taxpayers who file after the deadline could not use it.
- *The Direct File population was a late-filing population; decreasing the season-one skew and increasing the season-two skew.* As discussed further in Section 6.4, Direct File

⁸³ There is also the matter of extension period returns. About 15% of taxpayers file their returns after the April 15 due date. While Direct File remained open after April 15, 2025, it was publicly reported on April 16 that the service was ending, which would have served to further depress usage. (In any case, usage numbers cited here do not reflect usage after April, as Direct File did not provide public updates later in 2025.)

⁸⁴ This estimate is documented in the [2024 After Action Report](#).

⁸⁵ [By March 8](#), 63 million had filed overall. [By April 19](#), 137 million had filed.

6. Direct File usage and cost levels

was used disproportionately by younger single filers without children. This population tends to file closer to April 15; households with children, and households receiving EITC in particular, conversely, are especially likely to file early. Given this user base, Direct File's late opening did less to depress 2024 usage than it otherwise might have. On the other hand, as the news landscape around the federal government became increasingly threatening over the course of the 2025 season, this dynamic probably meant usage was *more* depressed in 2025 than it otherwise might have been.

- *As a point of comparison, keep in mind Free File usage is about 3 million returns, with a take-up rate of about 3% of eligible taxpayers.*⁸⁶
- *Tax filing is “sticky” behavior.* As discussed at length in the [2025 Direct File report](#), taxpayers become used to and comfortable with their existing filing solution. Taxpayers know that their existing solutions tend to streamline the process based on prior-year data, intentionally locking them into being repeat customers. (Direct File would eventually be able to use prior-year data, no matter how taxpayers filed the previous year, but this functionality was not built out in 2025; plus, taxpayers may not know or realize this, and the lock-in is foremost on many taxpayers' minds.) As such, market penetration should be expected to be slow, with more rapid adoption by new and younger filers less affected by these lock-in effects. It could take a generation or more for usage to reach “full” levels.
- *Slow adoption would also be in keeping with the experience of private tax software.* One of the most notable recent entrants to the online tax preparation market is Credit Karma Taxes (now Cash App Taxes), which [first provided free tax filing services in 2017](#) (by acquiring an already-mature tax filing company, meaning the product launched with widespread tax scope coverage). According to [reports made public during a DOJ anti-trust case when Intuit sought to acquire Credit Karma](#), the product had 2 million users in 2020, its fourth year in operation.
- *The cost projections in the [Direct File 2023 report to Congress](#) were largely validated by the 2024 and 2025 experience.*
 - Customer service was estimated around \$8 per taxpayer using Direct File. The 2025 customer service cost (based on the [2025 report's](#) \$3.6M customer service cost) was \$12 per taxpayer — itself slightly inflated by overstaffing in expectation of higher usage.
 - Technology and product costs were estimated at \$24-41M annually depending on scope and usage. The 2025 technology and product cost (again per the [2025 report](#)) was \$37.3M. This figure is on the high side of the range estimated in 2023 — a function of high start-up costs needed to quickly scale the product by the end of the Biden administration. There is also an important methodological difference; the original estimate did not include the cost of ID.me authentication, while the 2025 report followed IRS practice of charging the first application with which the taxpayer interacts in a given year for the

⁸⁶ 3 million returns, out of approximately 100 million eligible.

cost of their authentication (which was usually Direct File). This likely accounted for over \$2 million of the 2025 technology cost.⁸⁷

6.2 Projected usage in 2025-2028, on the pre-election trajectory

Keeping in mind the discussion above, we lay out here speculative projections of what the Direct File usage path may have looked like over the medium term, had the product continued on its pre-election trajectory. In particular:

- We attempt to assume away the impact of the administration change and outreach/promotion sabotage in 2025, and come up with a counterfactual usage estimate had the product been promoted along the same lines it was in 2024.
- We assume Direct File would reach “baseline maturity” in 2027. As discussed in [Chapter 7: Direct File promotion and outreach](#), we believe Direct File promotion and marketing would be able to shift markedly at this point, positioning Direct File as a “default” option, and thereby significantly increasing take-up. 2027 is a conservative estimate, as the team had anticipated this might be possible by 2026.
- We assume a glide path of state adoption reaching the vast majority of states by 2028. This is a slightly slower (and thus more conservative) glide path than that predicted in [Section 4.3.5](#).
- We assume costs remain \$40 million annually in technology costs, and \$8 per use in customer service cost, in line with circa-2023 projections and with 2024 and 2025 experience.

Filing season	% of tax units in covered states in scope ⁸⁸	% of USA pop. in covered states ⁸⁹	% of all US tax units in scope	# of tax units eligible ⁹⁰	Returns filed	Take-up rate ⁹¹	DF fixed cost (tech) ⁹²	DF variable cost (cust. service)	DF total cost	DF cost per return
2024 (actual)	21%	44%	9%	15.4M	140K	0.9%	\$22.7M ⁹³	\$1.9M	\$24.6M	\$176

⁸⁷ According to the [2025 report](#), the average verification cost \$3.52 (p. 25), and 751,235 users created or signed into their IRS account in the Direct File usage funnel (p. 19). If all of these users were new verifications, the cost would have been \$2.64 million.

⁸⁸ Based on federal scope only; does not account for any restrictions caused by state scope. This path is estimated in order to reach baseline maturity (50% eligible) by 2027, which entails continuing linear growth from 2024-2025 through the following two years.

⁸⁹ This path assumes — conservatively — approximately another 10 states in 2026; and 5-8 more in each of the next two years, reaching about 47 states by 2028. See [Section 4.3.5](#).

⁹⁰ Calculated in constant 2024 population; does not account for population growth.

⁹¹ Estimated.

⁹² For simplicity, costs in this column are modeled to remain constant as usage grows. In reality, costs would grow modestly as expanded usage would incur greater cloud computing costs to handle the higher traffic and activity. That expansion, though, would be negligible in context.

⁹³ From [2024 after-action report](#).

6. Direct File usage and cost levels

2025 (projected)	29%	66%	20%	32.2M	1M	3%	\$40M	\$8M	\$48M ⁹⁴	\$48
2026 (projected)	40%	80%	32%	52.8M	2.7M	5%	\$40M	\$21.6M	\$61.6M	\$23
2027 (projected)	50%	88%	44%	72.6M	7.3M	10%	\$40M	\$58.4M	\$98.4M	\$14
2028 (projected)	50%	95%	47%	77.6M	9.3M	12%	\$40M	\$74.4M	\$114.4M	\$12

We expect usage would continue to grow after this window, as well. But even under these projections, Direct File would have met Free File’s 3 million return annual usage in filing season 2026, and surpassed it in 2027.

If a future team were to pick Direct File back up, it is not clear from where exactly on this trajectory they would restart. But it would probably be plausible to reach the hypothetical-2025 levels in the first or second year of reanimation.

6.3 Goals: what is “enough” usage?

Usage could of course end up being higher or lower than the above estimates — and these estimates do not even get into the true long term of Direct File.

A natural question is: what is the goal of Direct File, in terms of usage? At what level would we say that Direct File has achieved its goals? At what level would we say that it is so underutilized that it is no longer worth operating?

We do not have firm answers to these questions. Below are a few possible answers, which imply minimum usage ranging from about 250,000 returns to 20 million returns annually.

1. *Cost per return below social cost to file. At a baseline level, we believe Direct File should be seen as sustainable if the cost per return filed is less than the average cost of filing.* Some of us have [argued elsewhere](#) that Direct File’s net cost to the IRS is less than its sticker price due to agency-wide savings, and that the social benefits should take into account newly-claimed tax benefits. Still, a simple and conservative way to determine cost-benefit is to divide Direct File’s operating cost by its number of returns, and compare this to the average cost to file, [which is approximately \\$160](#). By this measure, Direct File 2025, even with its severely hampered usage, was already providing societal return on investment, with an average cost per return of \$137.

⁹⁴ This comes from the formula described above. But also the Direct File 2025 report explains that \$41M was spent for filing season 2025, less than the \$61M projected. The discrepancy was partially explained by work for the future being canceled and by lower than expected usage; but also by costs coming in lower than anticipated. We use a figure halfway between \$41M and \$61M.

6. Direct File usage and cost levels

2. *Cost per return below \$25. A more rigorous standard would expect Direct File to achieve a more modest cost per return — perhaps \$25 per return.*⁹⁵ Direct File, by this measure, would achieve its sustainable usage level once it exceeds about 2.5 million annual returns.
3. *Market share in free tax filing.* More ambitious yet would be to establish goals based on fractions of the target population. About 100 million taxpayers are eligible for Free File, which is a reasonable proxy of the scope Direct File might reach in the medium term. If Direct File served 20-30% of them, for example, it would see 20-30 million returns annually.⁹⁶ However, the IRS should be reluctant to establish goals that are not directly related to fiscal sustainability or outcomes for taxpayers.
4. *Usage goals among priority populations.* Finally, it may be reasonable to set usage goals that are based on priority populations. For example, it may be preferable to achieve a world where Direct File has only 5 million annual returns but 1 million of these are from formerly intermittent filers or other high-priority populations, compared to a world with 10 million annual users who are higher-income and all file regularly. The IRS could determine based on return data whether a given filer is from a priority population, and Direct File ought to have internal goals focused on these subpopulations.

We believe policymakers may come to different conclusions on this question, but we are partial toward a combination of goals #2 and #4.

6.4 Usage demographics and characteristics of returns

This section explores who used Direct File while it was available. This section only uses publicly available data; Direct File usage data is taken from the [2025 Direct File report](#). That public data is limited in how many dimensions it explores, and also in the lack of cross-tabs; it contains income and filing status, but not income *by* filing status, for example. However, the high-level conclusions here are consistent with more detailed internal analyses we saw in 2024 and 2025.

The table below shows Direct File usage, compared to equivalent statistics for *all* returns (not only Direct File-eligible returns).

⁹⁵ When costs per return fall below this level, a relevant factor becomes the IRS's accounting of identity proofing. Currently, the IRS pays about \$3.50 for each new ID.me account created (according to the 2025 Direct File report, p. 25). If this identity cost remained constant and were billed to Direct File rather than to the enterprise, and policymakers sought to keep Direct File's cost below \$10 per return, for example, it would leave just \$6.50 for both technology and customer service costs.

⁹⁶ If the IRS uses market share to define any portion of Direct File's goals, the agency might look to international precedent — where there is significant variation. In 2020, five years after launching the modernized service and even longer since first launching online public filing, Australia's MyTax public online tax filing system was [used by 36% of taxpayers](#). In Germany, public data suggest about 74% of taxpayers use a public tax filing tool ELSTER (estimate from [Economic Security Project's 2024 Direct File report](#), citing German government data).

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		Direct File returns	All returns ⁹⁷
Age of primary filer ⁹⁸	18-25 ⁹⁹	19.7%	14.6%
	25-34 ¹⁰⁰	30.4%	18.2%
	35-44	16.0%	17.1%
	45-54	12.8%	15.0%
	55-64	12.7%	14.7%
	65+	8.4%	19.1%
Filing Status	Single	76.4%	50.3%
	MFJ and QSS	14.5%	44.0%
	HoH	6.9%	13.2%
	MFS	2.1%	2.5%
Income	0-10K	13.8%	10.5%
	10K-20K	11.5%	11.6%
	20-30K	10.4%	9.9%
	30-40K	11.5%	9.8%
	40-50K	20.7%	8.2%
	50-75K	9.7%	14.8%
	75-100K	10.2%	9.4%
	100-200K	10.9%	16.0%
	200K+	0.5%	7.7%
Income sources ¹⁰¹	Wages	94.6%	79.6%
	Interest	24.2%	30.8%
	Unemployment	4.8%	2.9%

⁹⁷ From IRS [SOI Table 1.2](#).

⁹⁸ From IRS [SOI Table 1.6](#).

⁹⁹ Direct File shows through 24; IRS overall shows through 25.

¹⁰⁰ Direct File starts at 25; IRS overall starts at 26

¹⁰¹ From IRS [SOI Table 1.3](#).

6. Direct File usage and cost levels

	Social Security	8.9%	15.3%
	Retirement	5.3%	18.6%
Credits ¹⁰²	EITC	10.6%	14.9%
	CTC/ODC	11.7%	23.7%
	ACTC	3.3%	11.2%
	CDCTC	1.5%	3.5%
	Retirement Savings Contribution Credit	7.9%	5.8%
	Credit for Elderly and Disabled	.01%	.004%

- Direct File users skewed young.** Age is the most noticeable pattern in this data. While only one third of all returns are filed by taxpayers under 35, half of Direct File returns came from this age group. Conversely, seniors represent 19% of all returns, but just 8% of Direct File returns. The idea that a younger group was more likely to try out a new online service should not necessarily be surprising.
- Direct File users skewed strongly single and childless — and this is probably more than just a function of age.** 50% of all returns but 76% of Direct File returns used the filing status single. Younger taxpayers of course are more likely to file single. But, overall, 73% of all taxpayers under 35 file single.¹⁰³ Direct File appeared to skew slightly more toward single returns even than the young age skew would suggest.

 - The fact that Direct File taxpayers disproportionately did not have children of course mechanically depressed the rate of CTC, CDCTC, and EITC claims among Direct File users, which further decreased the average refund of Direct File users compared to the general population.
- Direct File users did not exhibit a serious income skew.** Direct File was far less prevalent above \$100,000 in income; below that it tracked the income distribution in the overall taxpayer population relatively closely. Direct File has higher concentration at \$40-50K and lower at \$50-75K, but this is probably an artifact of the higher rate of single filers, whose incomes are generally lower than that of married filers, both because younger people earn less, and because one income is often lower than two.
- Unsurprisingly given scope, Direct File users were wage earners.** 95% of Direct File users had at least one W-2, compared to 80% in the overall population.

It is important to *not* draw a couple of erroneous, but common, conclusions from these findings.

¹⁰² IRS [SOI Table 3.3](#) and from Pub 4801.

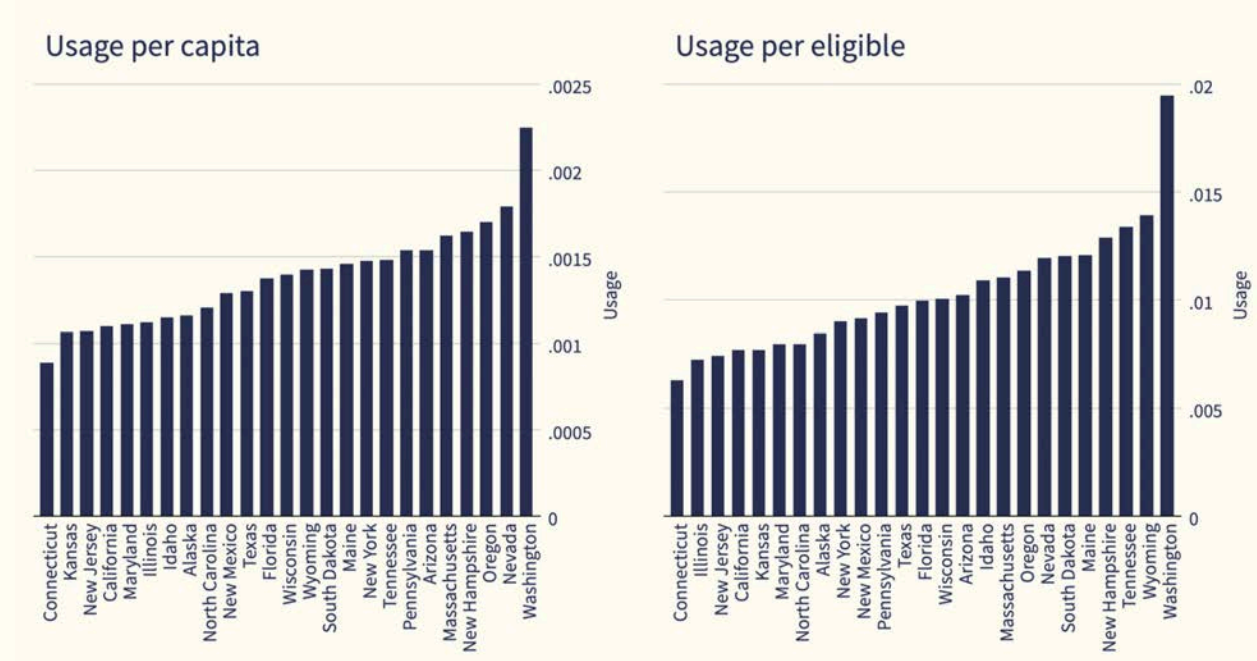
¹⁰³ Source: SOI Table 1.6, 40 million out of 53 million.

6. Direct File usage and cost levels

- *Direct File does not feature a low refund rate or a low EITC claim rate per se.* Direct File did have lower average refunds and EITC claims than the population. But this isn't anything inherent to the Direct File product per se; it is just a function of the disproportionately young and childless taxpayers that were its early adopters.
- *Direct File's early adopter population need not resemble its medium- or long-term user base.* Young childless taxpayers were the modal users in the first two years, and probably are the right place to look for early adopters in the future. But Direct File use should be expected to expand into more populations as time goes on, and as its userbase ages.

6.5 Usage patterns by state

Taxpayers in 25 states were eligible to use Direct File in 2025, which is a large enough sample that it is in principle possible to draw conclusions based on differences in state-level usage. **A χ^2 test shows, with very high confidence, that there are statistically significant differences in usage rates across the states. That said, one should not overstate the differences here. The highest-usage state had usage about three times higher than the lowest-usage state.** If we remove the lowest (Connecticut) and highest (Washington) usage state, the difference is a little under a factor of two. Usage is shown below on both a per capita basis, and per-eligible-household basis.¹⁰⁴



¹⁰⁴ Usage and number eligible per state is taken from the [2025 Direct File report](#). Per capita usage is Direct File usage divided by the state's population, and is intended to abstract away from any potential noise in the eligible population estimates.

6. Direct File usage and cost levels

To further explore the patterns in state-level usage, we collected a series of features we hypothesized might be correlated with Direct File use, and ran penalized LASSO regressions¹⁰⁵ to identify which most clearly predicted usage rates. We ran analyses using both versions of the usage rate, and also with and without Washington, a significant outlier that might bias results. But results were relatively consistent across all specifications.

We find two features most clearly predict Direct File usage:

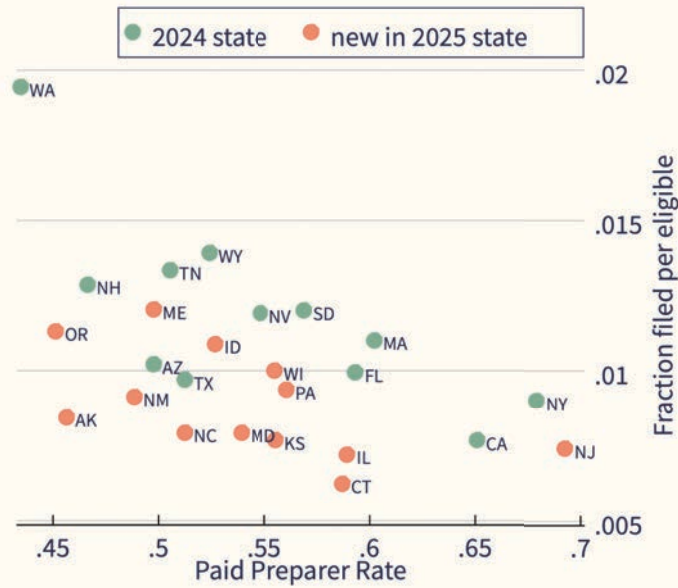
- **Returning states. States that had participated in 2024, and were thus in their second year in 2025, had higher usage than states that were in Direct File for the first time.** Depending on the specification, these states had about 0.3 percentage points higher usage per eligible household. Keep in mind the median state had 1% usage, so 0.3 percentage points is a substantial impact.
- **Overall online filing / paid preparer rates.** IRS statistics ([SOI Table 4](#)) classify electronic tax returns as either online DIY returns or paid preparer returns. **States with higher levels of online DIY filing (or, equivalently, lower rates of paid preparers) had higher Direct File usage.** Every one percentage point increase in the paid preparer rate is associated with 0.02 percentage points lower Direct File usage. This finding is consistent with the idea, dating back to the [2023 Direct File report to Congress](#), that taxpayers who already DIY file would be more interested in switching to Direct File. Interestingly, interim analyses during the 2025 filing season showed a much stronger version of this correlation circa February and March, a correlation which weakened by the filing deadline, as the difference between usage in high- and low-paid-preparer states decreased over time.

Together, these two factors explain 59% of the variation in state usage rates (54% if we drop Washington).

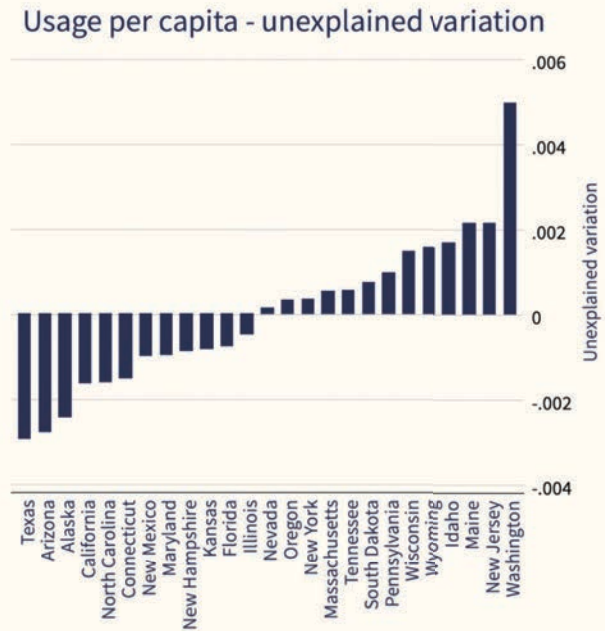
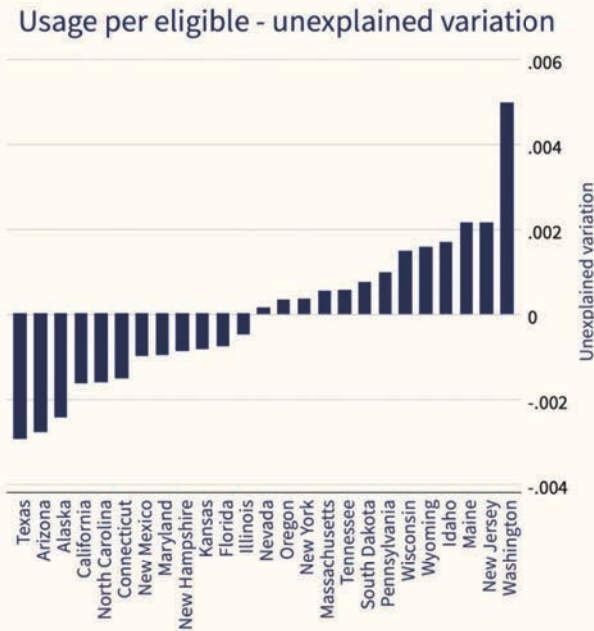
¹⁰⁵ LASSO regression is a statistical technique that is intended to identify which of several potential attributes most powerfully predict the value of interest (in this case usage rate). In the case of highly correlated predictors and small sample sizes, traditional techniques will tend to conclude that all features have some impact on the outcome. A LASSO will tend to down-weight or exclude features that do not meaningfully improve predictions.

6. Direct File usage and cost levels

Direct File usage and key predictors



The high predictive power of those two features also illustrates the importance of looking at usage rates in context. We can control for these two factors, and calculate the difference between observed and expected usage — yielding usage relative to expectations. The results are shown below. New Jersey, for example, had some of the lowest per unit usage in the country. But once controlling for its high paid preparer rate and its status as a new 2025 state, it actually performed quite well.



6. Direct File usage and cost levels

Two other features *may* impact Direct File usage rates, though these may be data artifacts, and in any case the mechanism of the correlation is not clear.

- *Population.* Larger states appear to have lower Direct File usage rates; population shows up as a significant feature in slightly less penalized specifications of the LASSO regression. It is not clear what would drive this correlation.
- *Elderly.* States with more elderly returns (as defined by [IRS SOI Table 2](#)) appear to have higher Direct File usage rates; this feature also shows up in some less penalized specifications of the LASSO regression. It is not clear what would drive this correlation, especially since elderly taxpayers were not the most likely to convert to Direct File.

Features that are unlikely to contribute to Direct File rates:

- *Rates of volunteer-prepared returns.* States with more VITA/TCE returns appear to have slightly lower Direct File usage rates, for certain less penalized specifications. This relationship could suggest some competition between VITA and Direct File, but it is more likely that the relationship is spurious, or a proxy for something else.
- *Democratic administrations.* States with Democratic administrations, perhaps surprisingly, have slightly lower Direct File usage, in certain less-penalized specifications that drop the outlier of Washington. But, again, it is more likely that the relationship is spurious, or a proxy for something else.

Features that are very unlikely to contribute to Direct File rates:

- *Rates of single filers, or low-income single filers.* Given Direct File's higher popularity among relatively lower-income single filers, one might assume that states with more such filers would have higher Direct File usage levels — but this does not appear to be the case. We included metrics for the overall rate of single filers and the proportion of all filers who are single filers earning under \$75,000 (again from [IRS SOI Table 2](#)). Neither show up prominently in any of the LASSO results.
- *Levels of on-the-ground outreach activity.* One might assume that Direct File usage would be driven by the intensity of outreach efforts by state. Of course, quantifying outreach efforts is challenging at best. As a very rough proxy, we asked one of the lead outside organizers for 2025 Direct File outreach efforts to classify all 25 states in terms of how much outreach action there appeared to be, in three categories: lots of activity, some activity, or little to no activity. This admittedly imperfect indicator has essentially no predictive power on Direct File usage, and does not show up in any of the LASSO specifications.
- *Free File usage.* The rate of Free File returns in each state has no discernible correlation with the Direct File usage rate.

7. Direct File promotion and outreach

Gabriel Zucker, Chris Given

A great deal of external stakeholder energy in 2024 and 2025 was spent on promotion and outreach: how do we make sure that people know about and use Direct File, especially given the paradigm shift that Direct File represents?

Unfortunately, despite this energy and effort, we have limited empirical data on what actually worked. Respecting taxpayers' (understandable) concerns about government tracking, Direct File did not implement functionality that would allow analysts to trace referral sources through to completed Direct File returns. (In year two, there was a limited program to use referral tracking URLs that allowed analysts to view by-source completion rates through the eligibility screener, but use of these links was not widespread, and in any case screener completion is only an imperfect proxy for Direct File usage at best.) It was the use of more thorough tracking URLs that allowed for [much more detailed analysis of outreach strategies in the GetCTC era](#).

The recommendations here should be considered tentative, based on circumstantial evidence about the timing of returns, limited state-level analysis discussed above, experiences engaging outreach partners during the early years of Direct File, analogous best practices in other contexts, and (to a limited extent) our user research in summer 2025.

- **With any outreach and promotion, a single, clear message and a direct call to action are paramount.** Outreach campaigns that themselves try to walk taxpayers through eligibility restrictions or promote various different filing options are very unlikely to be successful.
- As discussed in [Chapter 3 on tax scope](#) and [Chapter 6 on promotion and outreach](#), **we believe the most important thing Direct File can do to increase take-up is to quickly reach what we call *baseline maturity***, the level at which at least half of taxpayers are eligible, and Direct File can be credibly promoted as a default option that will work for most DIY taxpayers. When Direct File covers a limited set of circumstances, with sometimes difficult-to-explain eligibility boundaries and only a minority of taxpayers included, discussions of the product inevitably refer to it as a “limited” product for “only taxpayers with very simple situations.” Even for those taxpayers who are eligible, this language tends to suggest Direct File may well not be the right option, or is still some very early-stage experimental program. Reaching baseline maturity will fundamentally change the tenor of the discourse and perceptions, mechanically increasing uptake even without any explicit new marketing efforts.
- By far the most important factor impacting Direct File's take-up will be its positioning on the IRS website. **Once Direct File reaches baseline maturity, the IRS will be able to position it as a default filing option. We believe this will be**

transformative. The single biggest call to action on the IRS website — throughout the entire website — should be to file a return, and this call to action should take taxpayers to Direct File. No longer would “how to file” pages be a mish-mash of detail-laden treatments of various slightly overlapping options, struggling to compete against highly optimized private industry landing pages. While any future Direct File team should continue to pursue other outreach and marketing campaigns, we broadly encourage future teams and advocates not to over-anchor on these efforts, putting significant trust instead in the ability of formal messaging to transform the filing ecosystem.

- Policymakers and advocates must be clear-eyed, though, that implementing this recommendation will occasion vehement opposition from the tax preparation industry. In 2024 and 2025, the industry’s key demand for the IRS and state departments was that Direct File not be promoted *above* Free File options. Industry was so focused on this point that, in 2025, they won an (unorthodox) compromise in which the IRS web page describing free filing options traded off every minute whether Direct File or Free File was listed first on the page. We believe the IRS would be firmly in the right in such a fight (see [Chapter 15: IRS and private providers](#)), but policymakers should know what they are getting into.
- The IRS should **augment this website positioning with additional direct communications to taxpayers**, as discussed in [Chapter 10: IRS communications](#). This could include generic reminders to file during the regular season, highlighting Direct File as the default filing option, as well as more targeted outreach to taxpayers who have not yet filed after April 15. The IRS could also consider custom direct communications to taxpayers whose records suggest they are likely eligible for Direct File, based on their prior returns and their reported income sources.
- The federal outreach effort is also extremely powerful in its second-order impacts. **Whether it is in generating news coverage, or convening other large institutional actors to echo the Direct File message, nothing compares to the federal megaphone.** To the degree messengers other than the federal government get involved in promoting Direct File, the best way to recruit and organize them is again via the federal government.
- Absence of evidence is not evidence of absence, but **there is no clear evidence that state-level organizing efforts drove take-up in 2025.** As discussed above in [Chapter 6: Direct File usage and cost levels](#), we regressed state level take-up on a qualitative measure of the level of community- and state-based outreach activity that took place in 2025, and found no relationship. This lack of correlation largely tracks [GetCTC research in 2021 and 2022](#), which found that most community-level outreach activity was not effective.
 - The exception to this lack of correlation in the GetCTC era was outreach via direct messages sent by benefits agencies, which reliably had a small but meaningful impact on take-up rates. But the GetCTC research noted at the time that “promoting GetCTC in 2022 was a very specific project” and

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“promoting a tax filing service with a wider scope during the regular filing season could well be a very different exercise.” Despite some effort to engage benefits agencies, the Direct File outreach effort never jibed with benefits agencies the way GetCTC did. Promoting GetCTC felt to benefits agencies like promotion of a concrete cash benefit that could supplement other social assistance. Promoting Direct File, among the thicket of various options at tax time, did not present the same way.

- State government outreach and promotion became a significant focus of the Direct File movement in 2025. We saw that Governors’ Offices can drive some news cycles, and that state tax departments can be helpful at the margin by promoting Direct File clearly in their own web properties and communications — provided they link to federal Direct File as the front door of the process. But **this circa-2025 state focus was significantly driven by federal inaction; with the IRS and Treasury on the sidelines, working through states was the best the movement could do. It is not a good substitute for federal action.**
- **Outreach via employers does appear to be a promising angle**, as employees are used to receiving information about tax filing options from their employers when they receive their W-2s. But this is one angle that was not significantly tested in 2024 and 2025. And as with other messengers, it will be far easier to convince employers to replace their private tax software referrals with Direct File referrals once Direct File covers a clear majority of their workforce.
- **The IRS may consider experimenting with traditional paid media to promote Direct File.** As discussed further in [Chapter 10: IRS communications](#), several of the taxpayers with whom we did user research in summer 2025 said they would take a new IRS filing solution more seriously if they learned about it from paid advertising, a source where they are used to getting information about reputable products.

8. Integration between Direct File and other IRS systems

Gabriel Zucker, Chris Given

Direct File was built essentially on an island from other IRS systems.

This is relatively normal for a transformational digital product, allowing the team to work differently and create something unlike what has come before at a large agency. If we want to do something new, it helps to separate the new from the old. This was a similar approach undertaken by, for example, the U.S. Digital Service team at the Department of Veterans Affairs, which built a new landing page, vets.gov, to host key digital services, largely separately from the rest of the department.

But after a time, the logic shifts; now the goal is to ensure the rest of the agency can benefit from the new team. As vets.gov reached maturity, after several years, it merged with other VA online services and became va.gov. Similarly, as Direct File reaches maturity, it would be natural for it to become more integrated into broader agency technology products. In the IRS context, in practical terms, this means merging Direct File with the IRS online account. Direct File would be part of a suite of IRS online account products.

The right time for these processes to begin is, again, around the time Direct File reaches its *baseline maturity*, the point at which it can serve over half of taxpayers, as described in [Chapter 3: Direct File and tax scope](#), and can be positioned as a default filing option. Had the Direct File team continued operating, this might have been in 2026 or 2027.

In concrete terms, such a merger would enable a number of improvements for Direct File and for other IRS services:

- *Direct File promotion.* ‘File’ would become a call to action on the online account and throughout the website, and would take you to Direct File. While online account usage is currently limited, IRS.gov visits are high, and the integration would make it possible to start tying Direct File in as a default filing option throughout IRS online properties. (As noted in [Chapter 7: Direct File promotion and outreach](#), these changes would admittedly provoke substantial opposition from the tax prep industry.)
- *Year-round communications.* In [Chapter 10: IRS communications](#), we discuss the importance of regular, reliable, and trustworthy communications from the IRS — and how Direct File has begun to point the way toward these better communications. Integrating Direct File with the online account would allow messaging written in a Direct File style and tone to begin to be used with taxpayers throughout the year.
- *Connections to other IRS services.* While tax filing is the most important online action most taxpayers take, it is not the only one. Integrating Direct File into the online

8. Integration with other IRS taxpayer-facing systems

account would allow taxpayers to move seamlessly between the filing experience and these other actions, and infuse those other actions with the look, feel, and philosophy of Direct File. These include:

- *Installment agreements* that taxpayers set up when they cannot pay the entirety of their tax due.
- *Real-time tax topics*, like withholding, estimated taxes, and (if the policy is reintroduced in the future) management of advance payment of credits. [Chapter 11: Real-time taxes](#) explores this theme in much more detail, including what a real-time product might look like.
- *Payments*. Today, irs.gov/pay, where taxpayers make estimated payments, tax due payments, or any other payments, in fact sits on an island from the rest of the IRS online infrastructure.
- *Amended returns*. The IRS's process for amended returns remains antiquated. Taxpayers must fill out the [1040-X](#), which explicitly identifies the old and new values for each incorrect value. For a taxpayer who prepared their return using tax software and never interacted with the underlying tax forms, navigating such a form is prohibitively difficult. Meanwhile, taxpayers can nominally e-file the 1040-X, but behind the scenes, these e-filed 1040-Xs are printed and processed manually. Both sides of this process are due for an update. Direct File would be a valuable piece of software to manage the updated process, since in principle a filed tax return could be fed into the fact graph and presented in Direct File, even if it were filed differently in the first place.¹⁰⁶

Such integration between Direct File and other IRS services was already being discussed within the IRS in Direct File's early years, and would be a natural step for a reanimated team within a year or two.

¹⁰⁶ There would be some logistical challenges with this approach, since the fact graph contains intermediate data inputs not present on a final return.

9. Direct File, fact graph, and a new way of building civic technology products

Jennifer Thomas, Chris Given, Gabriel Zucker

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Summary

- Translating the tax code into a product that asked taxpayers tractable questions and produced accurate returns was a challenging process, which could have been made easier with more and better back-end tools and innovations. Direct File employed two innovations in this regard — (1) the fact graph, a declarative business rules engine that modeled the tax code and allowed the product to make inferences about incomplete information, and (2) a nascent “taxpert interface” that allowed non-engineers to visualize and interact with the product. We envision expanding on both of these components to develop a new way of building civic technology, which we dub *FactML* in honor of its principal component. (9.1)
- Such back-end innovation would: (1) allow Direct File to be built and scale faster and more reliably, (2) allow states to configure state filing functionality directly in the Direct File product, and (3) open the door for better, more efficient products throughout the civic technology space, including cross-domain linkages. (9.2)
- The impact of these changes can best be envisioned by picturing the process of states building new tax functionality in Direct File, in a FactML world. (9.4.1)
- FactML fundamentally consists of four components: (1) Fact Markup Language (FactML), a generalized XML-based specification for defining legal code as software

code, (2) Factual, a portable business rules engine that parses the relationships in FactML, (3) Formative, an opinionated interface library for a user-facing application that collects and asserts information, based on the previous layers, and (4) Formative Studio, a GUI for viewing, annotating, and testing the interfaces and logic contained in the previous layers. Formative Studio is the linchpin that enables effective cross-functional collaboration and makes the entirety of the product tractable in a single interface. Direct File employed functional versions of (1), (2), and (3) (though they each require some documentation and additional abstraction), but only the most nascent version of (4). (9.4.2)

- FactML would solve collaboration and documentation challenges inherent in building such a complex product, it would use this new collaboration potential to unlock state support directly in the product, and it would dramatically speed testing. (9.4.3)
- Taken together, these reforms are a way of working more than they are a single deliverable product. They could be advanced in a variety of contexts, but getting to a FactML world is not a simple linear process. (9.5)

Building Direct File, expanding it, and ensuring its accuracy was difficult. We believe that, with better infrastructure and tooling, it could have been much easier.

On the other hand, across government, teams looked at Direct File and asked, “What did you use to build that?” Other government domains, no less than tax filing, need a process to represent complex eligibility rules, ask questions of users, and create standard representations of this information (e.g., program applications, tax returns) — and Direct File had enviably promising nascent solutions to these problems.

In this chapter, we present the outlines of a robust suite of back-end processes, practices, and products, much of which Direct File had at least begun to build, and the completion of which would have transformed the process of delivering Direct File. The ideas we present here are not entirely novel; many of its components were already implemented in Direct File, and continue to be refined today in successor products. But this chapter elaborates on the existing work, paints a picture of how these procedural innovations could expand in the future, and outlines some farther-reaching implications of their prospective implementation.

Taken together, this chapter outlines a method of building civic technology, that we dub *FactML development*, in honor of its core component. If fully built out, we believe this way of working would (1) make it easier to restore, expand, and maintain Direct File in the future, (2) open up new possibilities to bring Direct File state filing directly into the product (see [Section 4.4.2](#)), and (3) provide a springboard for revitalized government service delivery and the building of new, innovative services across the civic technology landscape.

We base the conclusions in this paper both on our experiences building and maintaining Direct File, and on a round of user research with civic technologists across issue spaces during the summer of 2025.

Sections 9.1 provides more background on the line of thinking that brought us to this proposal. Section 9.2 outlines three distinct categories of benefits the proposal could deliver. Section 9.3 covers foundational user research we did to validate core assumptions underlying this proposal, and flesh out some of the less well developed details. Section 9.4, critically, lays out the substance of the proposal. Section 9.5 discusses how technologists might implement the ideas in this chapter, especially in a world without Direct File.

9.1 Background and Direct File back-end functionality to date

Delivering Direct File required overcoming dozens of challenges, but the challenge of translating the Internal Revenue Code into a humane interface was decidedly the long pole in the tent. Direct File had to ask taxpayers a series of tractable questions, and translate this assorted information about a taxpayer's life into what the taxpayer is eligible to claim. The often fuzzy relationship between these questions and the appropriate tax return is variously described via statutes, regulations, court decisions, instructions, publications, and other guidance. Direct File had to wrangle this problem at a level of accuracy commensurate with speaking with the authority of the IRS.

Some of the difficulty of this work was inevitable, given the historical context. Because the IRS had opted to create the Free File Alliance in 2002 rather than build its own tax filing software, the agency had been sidelined from the work of actually building electronic filing tools, with design and even legal analysis handled by third-party tax preparation companies, rather than in-house at the IRS. Add in the fact that IRS budgets had been shrinking on a per capita basis over the 21st century, and there was a backlog of work and capacity-building that had to be done within the agency to get Direct File off the ground.

But what if, just as we did for taxpayers, we were to treat the people building Direct File as users? We might ask: what would make this work easier? As the scope of Direct File continued to expand, how would we have managed to scale it without being dragged down by the compounding difficulty of maintaining its complexity? What new tools or processes would have expedited the maintenance and further development of Direct File? And what new possibilities might these tools or processes have made possible?

Put differently, how does a cross-functional team work together to build the core tax logic of a product like Direct File? How do designers and subject matter experts collaborate to develop designs that ask the right questions? How do they work with engineers to get those designs implemented? How does everyone test to ensure it was done right, and that nothing — in the logic, in the designs, or in the implementation — was overlooked? Moreover, how does this work when a team needs to make marginal changes to functionality, either to implement a similar but distinct provision, or due to legal changes over time? How can this entire process be systematized so it isn't just a few people brute-forcing the whole problem?

Direct File incorporated two principal innovative concepts in this vein:

9. Direct File, fact graph, and a new way of building civic technology products

- The “[Fact Graph](#)”: [a declarative business rules engine designed for reasoning about incomplete information](#), building on prior work dating back to [TAXMAN](#) in 1976. The fact graph formally models all the relevant aspects of the tax code, allowing the software to make reasonable inferences about the information it has and needs, without every component having to be manually specified.
 - For example, consider the fact of EITC qualifying child eligibility. Its inputs include, among others, an age test (under 19; or under 24 and a full-time student; or any age and entirely disabled) and a residence test (co-residency with claimant).
 - Suppose the child is 17 but we do not know their co-residency, and we know the taxpayer may yet be eligible for EITC. Correctly specified, the fact graph logic “knows” that we still need to ask about co-residency; but that there is no need to ask about full-time student status. This knowledge can be used to drive the pages a taxpayer sees without manually encoding each of them.
 - Suppose now the taxpayer edits the child’s birthday; she is in fact 22. The fact graph logic now knows we need to backtrack and ask about full-time student status.
- The nascent “Taxpert Interface”: an interface for and by the tax experts (“taxperts”) who were creating the product — that is, the designers, product managers, and subject matter experts whose job it was to ensure that the product faithfully implemented the tax law. The core extant component, the “all-screens” view, is [here](#) in the open-source Direct File repo. The taxpert interface functionality was far less built out than the fact graph, as of the end of Direct File in 2025.

These innovations were critical to Direct File’s success. But, especially in the case of the Taxpert Interface, they were in their early stages, as the Direct File team had to prioritize taxpayer-facing functionality at the expense of back-end tools. In 2025, year three, a more mature Direct File team planned to for the first time allocate engineering resources specifically to building better tools. This third year was, of course, not to be.

What would it look like if we could pick up where Direct File left off, developing an interconnected web of tools that support the development of Direct File, or other government services? We collectively refer to this web as FactML development — a suite of components that allow products to be built on the fact graph.

9.2 The potential impact of FactML

Before we get into the details of what FactML development could look like, it is helpful to step back and lay out the benefits of investing in this approach in the first place.

9.2.1. Improving and accelerating a revived Direct File

These are the tools the Direct File team wished for and planned to develop; they would have made the product more stable, and made it possible to deliver more functionality more quickly, especially increased tax scope. If these tools were built out, a future decision to

9. Direct File, fact graph, and a new way of building civic technology products

bring Direct File back would gain momentum more quickly. These tools would enable the IRS to review the resuscitated product for compliance with current year tax law, make swift updates, and rapidly begin expanding tax scope. They would greatly reduce the risk of accuracy errors occurring in the software and tarnishing Direct File's reputation.

Outcomes: Direct File is able to relaunch within weeks of a decision and features a more aggressive roadmap for incorporating new tax scope than would otherwise be possible.

9.2.2. Better solutions for more states in Direct File

Direct File's 2024-2025 approach to state taxes worked, but, as we argued in [Chapter 4: Direct File and state taxes](#), it was not ideal. Developing and maintaining standalone state tools was expensive for states; the two-part user experience was not good enough for a meaningful minority of taxpayers; and the separation of federal and state products made the prospect of expanding to multi-state returns daunting at best.

We believe FactML development would allow state tax agencies to build out support for state tax returns *within Direct File* (the solution discussed in [Section 4.4.2](#)). This would provide taxpayers with a more seamless and intuitive experience, and provide a solution to the partial-year return problem. It would also save significant costs for states, who would not need to host independent products. They would not have to manage account creation or maintenance. They would not need to manage e-filing or reject resolution. They would not need to consume the Direct File API for exports, or route that data to the appropriate points in the state return. Even the creation of state questions would be a much more streamlined process than in the status quo. Overall, the cost to states would fall precipitously.

Outcomes: Taxpayers more easily file state tax returns and Direct File expands more quickly to more states.

9.2.3. Non-tax services, and innovative cross-domain interoperability

Government tech teams working in other domains, just as in taxes, also need a process to represent complex eligibility rules, ask questions of users, and create applications/returns representing this information. Indeed, the Direct File team members had experience with numerous government services and programs, and the team recognized the potential for generalizing these solutions to other problems. The team also noted that the complexity of taxes seemed to be the most challenging of all government systems, meaning that a solution robust enough for tax would very likely work for other domains, too.

Not only would FactML development be a best practice that would make it easier to build benefits applications across government, but its shared framework would make it possible for different government applications to work together. Just as state taxes could build on the fact graph of a federal tax return, state benefits could build on the fact graph too. That is, FactML could schematize the intersections of eligibility rules for different programs, and enable services that allow users to import and reuse information, that recommend other

programs you might be eligible for, or that apply for multiple programs in a single step — even if they’re administered by different entities.

Outcomes: New, innovative government services are delivered at reduced cost and leverage user-controlled data sharing to reduce burden and increase uptake.

9.3 User research: the problem and the need

This product exploration began with a set of hypotheses, collectively stipulating that something like FactML development would solve real problems for teams building government products.

To test these hypotheses, and explore further what a solution would need in order to be successful, we held a series of structured conversations with technologists who worked on (a) Direct File and associated products, (b) non-Direct File tax products, and (c) non-tax products, primarily in the space of safety net benefits applications. This comprised nine total sessions with eleven total technologists, as well as a full-day retrospective with six members of the Direct File team. We also explored as much as possible the tooling and resources surrounding other government products.

Our core hypotheses were largely borne out by the user research process:

- *Hypothesis #1. We think the task of translating statute/regulations/policies into a product and scaling it is hard. This was well supported by our research.*
- *Hypothesis #2. We think updating digital services in response to rule changes is hard. This was partially supported by research. While this is clearly true for big and highly complex tools interacting with dynamic rule spaces like Direct File, not all non-Direct File teams felt updates were a significant challenge.*
- *Hypothesis #3. We think people who know “the rules” should be directly involved in the creation and maintenance of digital services. Our research validated that such subject matter experts are already deeply involved in design and testing, and most want to be empowered to contribute directly.*
- *Hypothesis #4. We think non-engineer users will need a “no-code” environment to interact with the details of the product. Our research largely supported this. Some non-engineer users had worked with “light” tools like YAML, but they still wished for an easier way. Most had not tried to interact directly with the product because the tools were not there or were not practical.*
- *Hypothesis #5. We think taxes are the most complex domain for government digital products. This was supported by our research.*
- *Hypothesis #6. We think private tax software companies have their own internal tools to maintain and manage their products, although there is no publicly available tool of this type. This hypothesis appears to be true, though it was not directly surfaced in our user research sessions.*

Exploring the difficulty of building and maintaining a product, we found the following:

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- *Lack of the right tool for the task is costly.*
 - Every task takes more time and it means the cost of meaningful iteration is often too high.
 - Most processes are kludgy and manual. Decisions get stuck in e-mail round robins, changes are delivered in spreadsheets, PDFs, Word docs, JIRA, Figma, etc.
 - The smallest update can get stuck in a long backlog if every change depends significantly on engineering.
 - Taken together, all of this pushes all our agile good intentions toward something more like waterfall development. Our build-measure-learn cycles can become performe superficial.
- *Testing is a huge pain point.*
 - People successfully use the all-screens view, design Murals, tax recipes, and loadable scenarios to test accuracy, but most of those tools are band-aids.
 - It's hard to spot what's missing from a flow. It's easier to see mistakes that are present than to realize a screen or question is missing altogether.
 - It's hard and slow to test different scenarios and permutations in the user experience.
 - Testing happens too late in the process, under time pressure, and it usually takes an expert to create a scenario and recognize if it's correct in the product.
- *People need to understand the system they're building.*
 - Teams need to see the logic behind the product and the screen flows.
 - Teams need to see both the high-level structure and the details, with easy ways to move between them.
 - People need different views and different data depending on what they're doing — design, content, testing, engineering, legal/policy review.
 - People want to see notes, decision logs, and external references tied to screens – without it being manual note maintenance and without creating information overload in the view.
- *Collaboration can't continue to be MacGyver'd.*
 - Teams cobble together their own methods to collaborate and keep track of work.
 - Work is scattered across too many tools.
 - People are using screenshots with instructions typed on top to communicate with engineering, Murals and PDFs to map flows, JIRA/Git/custom systems for tickets, Slack and email for coordination, Word documents for feedback. It's all fragmented and static; there are too many places to look; and the information does not reliably sync up.
- *The to-be tool needs to:*

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- Manage cognitive load — there will be a lot of screens, annotations, scenarios, options, and filters. How well the tool handles that will make or break it.
- Handle multiple contributor types, groups, permission levels.
- Support testing — things like scenario builders, building blocks, and AI help.
- Offer views tailored to different users and tasks.
- Make it easy to trace flow logic and understand why things work the way they do.
- Be accessible to internal teams and external collaborators, like states or legal reviewers.
- Make it easy to:
 - Compose screens and flows.
 - Understand the logic and the statute underneath it.
 - See and test everything — not just the question pages, but also outputs and messaging.
 - Test scenarios and explore different paths “flatly.”
 - Recognize status, approval, and readiness at a glance.

9.4 The details of FactML development

The following is a rough proposal of what robust FactML development might look like.

9.4.1 Storyboard

The storyboard below illustrates how a state tax subject matter expert (Ruby) and engineer (Max) might work together to develop new state filing functionality in Direct File, in a FactML world.

Shared tools, Maryland rules

Meet Ruby and Max from the Maryland tax team—
Ruby's the tax expert and Max handles engineering



Ruby's goal is to make sure Marylanders who use Direct File can get all the benefits they qualify for—including state benefits like Maryland's Earned Income Tax Credit—without having to bounce between separate tax tools just to complete their return.

Ruby knows Direct File stops asking EITC-related questions as soon as a taxpayer gives an answer that disqualifies them from the federal credit—it's meant to save them from seeing questions that no longer apply.

Maryland EITC has different rules than federal EITC, we reach more taxpayers.

How many months did Peter live with you in 2024?

In 2024, did you pay more than half the cost of keeping up the home you lived in with Peter?

skip if disqualified from EITC

But then we don't get the answers we need to know if a Marylander should get state EITC...

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In the past, handling a tax law difference like this meant Maryland had to maintain its own tool—duplicating federal rules just to apply its state-specific exceptions.



Maintaining such a complex system is hard. When Ruby needed to update the rules to reflect statute changes, she struggled to see how the existing rules were applied—and then wrestled with translating the new rules into tickets that described for Max what needed to change in the tool.

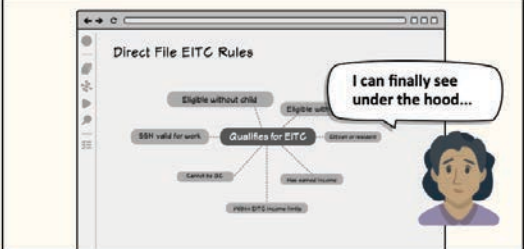
Ruby knew the tax law. Max knew the system. But without a common way to understand and discuss the rules, they kept getting their wires crossed.

But now, Maryland has a place in Direct File. Ruby opens Formative Studio, the tool behind Direct File, to start customizing the Maryland taxpayer experience.



Ruby pulls up Direct File's EITC rules. In the past, the tools she'd worked on felt like black boxes—she couldn't just see their tax rules.

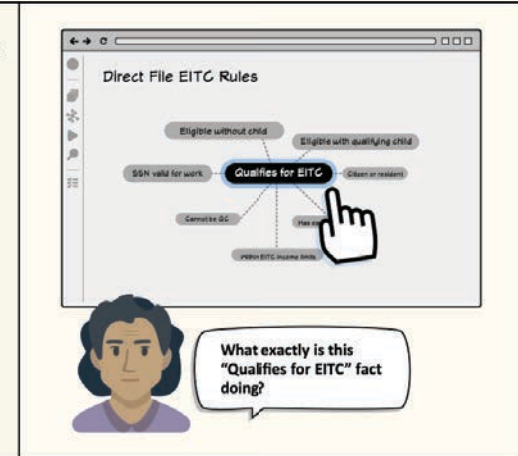
But here, she can—thanks to Factual, which uses AI to translate between the machine-readable "facts" that power Direct File and the human-readable explanations that make sense to experts like Ruby.



Ruby values seeing how the tax logic fits together—but the graph alone doesn't quite match how she thinks about tax rules.

Ruby thinks in terms of eligibility tests and line-by-line instructions—not nodes and connectors.

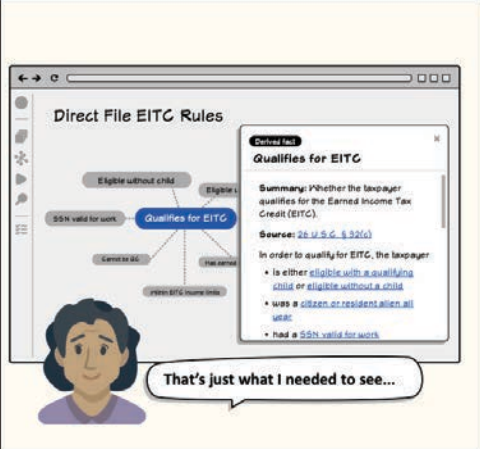
She clicks the fact at the center of the diagram.



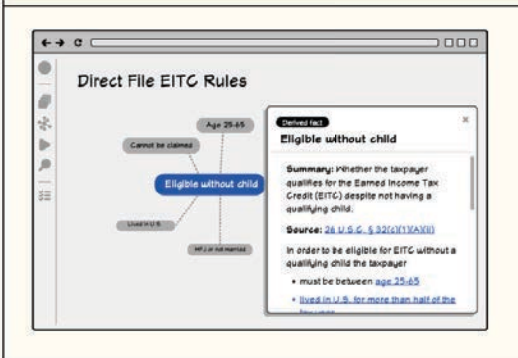
When Ruby brings up the rule, she sees a plain language explanation of the "Qualifies for EITC" fact.

Factual explains what the fact is doing, its "recipe," in language that makes sense to Ruby. This explanation is automatically generated and kept up-to-date using AI.

It even includes a citation pointing to the tax rule in statute.



Ruby clicks on links to related facts in the graph, quickly finding another fact she was looking for: the rules for EITC eligibility when the taxpayer has no qualifying child.



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Ruby's not using this tool to look up tax rules—she knows them like the back of her hand.

What the graph and plain language explanations help her do is to see where those rules live in the machine-readable version of the tax code.

That enables her to quickly pinpoint which facts need to work differently to ensure Marylanders can get the state EITC.

Derived fact
Qualifies for EITC

Summary: Whether the taxpayer qualifies for the Earned Income Tax Credit (EITC).

Source: [26 U.S.C. § 52\(c\)](#)

In order to qualify for EITC, the taxpayer:

- is either eligible with a qualifying child or eligible without a child
- was a citizen or resident alien all year
- had a SSN valid for work
- was not the qualifying child of another taxpayer

Derived fact
Eligible without child

Summary: Whether the taxpayer qualifies for the Earned Income Tax Credit (EITC) despite not having a qualifying child.

Source: [26 U.S.C. § 52\(c\)\(1\)\(A\)\(ii\)](#)

In order to be eligible for EITC without a qualifying child the taxpayer:

- must be between age 25-65
- live in U.S. for more than half of the tax year

That was actually easy...

Ruby can now ask for changes she needs with confidence, referencing facts in the product by name. And that makes life easier for Max, too.

I need a new fact called "Qualifies for MD EITC." It should be just like the "Qualifies for EITC" fact, except it shouldn't include the "SSN valid for work" requirement or the requirement that taxpayers eligible without a qualifying child be "age 25-65"...

Now we're speaking the same language...

Even better, the changes are simple for Max to implement. He deletes the two lines that need to be dropped, commits the "Qualifies for MD EITC" update, and moves on with his day. Leaving him time for tasks tougher than this one turned out to be.

```

1 <!-- Fact path: "Qualifies for EITC" -->
2 <!-- Qualifies for MD EITC -->
3 <!-- Description -->
4 <!-- Source -->
5 <!-- In order to be eligible for EITC, the taxpayer -->
6 <!-- Source: Md. Code Ann., Tax - General, § 10-104 -->
7 <!-- Description -->
8 <!-- In order to be eligible for EITC, the taxpayer -->
9 <!-- Source: Md. Code Ann., Tax - General, § 10-104 -->
10 <!-- Description -->
11 <!-- In order to be eligible for EITC, the taxpayer -->
12 <!-- Source: Md. Code Ann., Tax - General, § 10-104 -->
13 <!-- Description -->
14 <!-- In order to be eligible for EITC, the taxpayer -->
15 <!-- Source: Md. Code Ann., Tax - General, § 10-104 -->
16 <!-- Description -->
17 <!-- In order to be eligible for EITC, the taxpayer -->
18 <!-- Source: Md. Code Ann., Tax - General, § 10-104 -->
19 <!-- Description -->
20 <!-- In order to be eligible for EITC, the taxpayer -->
21 <!-- Source: Md. Code Ann., Tax - General, § 10-104 -->
22 <!-- Description -->
23 <!-- In order to be eligible for EITC, the taxpayer -->
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25 <!-- Description -->
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27 <!-- Source: Md. Code Ann., Tax - General, § 10-104 -->
28 <!-- Description -->
29 <!-- In order to be eligible for EITC, the taxpayer -->
30 <!-- Source: Md. Code Ann., Tax - General, § 10-104 -->
31 <!-- Description -->
32 <!-- In order to be eligible for EITC, the taxpayer -->
33 <!-- Source: Md. Code Ann., Tax - General, § 10-104 -->
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35 <!-- In order to be eligible for EITC, the taxpayer -->
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47 <!-- In order to be eligible for EITC, the taxpayer -->
48 <!-- Source: Md. Code Ann., Tax - General, § 10-104 -->
49 <!-- Description -->
50 <!-- In order to be eligible for EITC, the taxpayer -->
51 <!-- Source: Md. Code Ann., Tax - General, § 10-104 -->
52 <!-- Description -->
53 <!-- In order to be eligible for EITC, the taxpayer -->
54 <!-- Source: Md. Code Ann., Tax - General, § 10-104 -->
55 <!-- Description -->
56 <!-- In order to be eligible for EITC, the taxpayer -->
57 <!-- Source: Md. Code Ann., Tax - General, § 10-104 -->
58 <!-- Description -->
59 <!-- In order to be eligible for EITC, the taxpayer -->
60 <!-- Source: Md. Code Ann., Tax - General, § 10-104 -->
61 <!-- Description -->
62 <!-- In order to be eligible for EITC, the taxpayer -->
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97 <!-- Description -->
98 <!-- In order to be eligible for EITC, the taxpayer -->
99 <!-- Source: Md. Code Ann., Tax - General, § 10-104 -->
100 <!-- Description -->
    
```

That really was easy...

Cut
Copy
Paste
Delete

Later on, Ruby checks how the updates turned out.

When she pulls up the new fact, she again sees a plain-language description of what it does.

Max didn't have to write that description—and no one needs to maintain it. AI automatically turned the XML Max wrote into human-readable language for teammates like Ruby.

Direct File MD EITC Rules

- Eligible without child
- Eligible with child
- Qualifies for MD EITC
- Not eligible
- Not eligible for MD EITC

Derived fact
Qualifies for MD EITC

Summary: Whether the taxpayer qualifies for the Maryland Earned Income Tax Credit (EITC).

Source: [Md. Code Ann., Tax - General, § 10-104](#)

In order to be eligible for Maryland EITC, the taxpayer:

- was not the qualifying child of another taxpayer
- has earned income

I love that I can just pull up the graph and spot my changes right away...

Ruby's last step is to test her changes in the user experience. Instead of manually filling out a tax return in Direct File, she uses Formative Studio's AI Assistant to instantly generate a filled-out return based on a scenario—and then uses the Scenario View to check that her changes are reflected in the screen flow.

Test scenario

You

Give me a return for a 24-year-old taxpayer from Maryland who was a U.S. resident all year, had an ITIN, was unmarried, listed no dependents, and has \$10,000 in P1-Q income.

Formative AI

Generating screen flow...

The bird's-eye view of the tax return shows Ruby that the EITC questions now appear for Maryland taxpayers who qualify for the state credit but not the federal one. She runs more scenarios—the rules work. And honestly? She's impressed. She and Max just changed how Direct File works for people in her state. And nothing about it was hard.

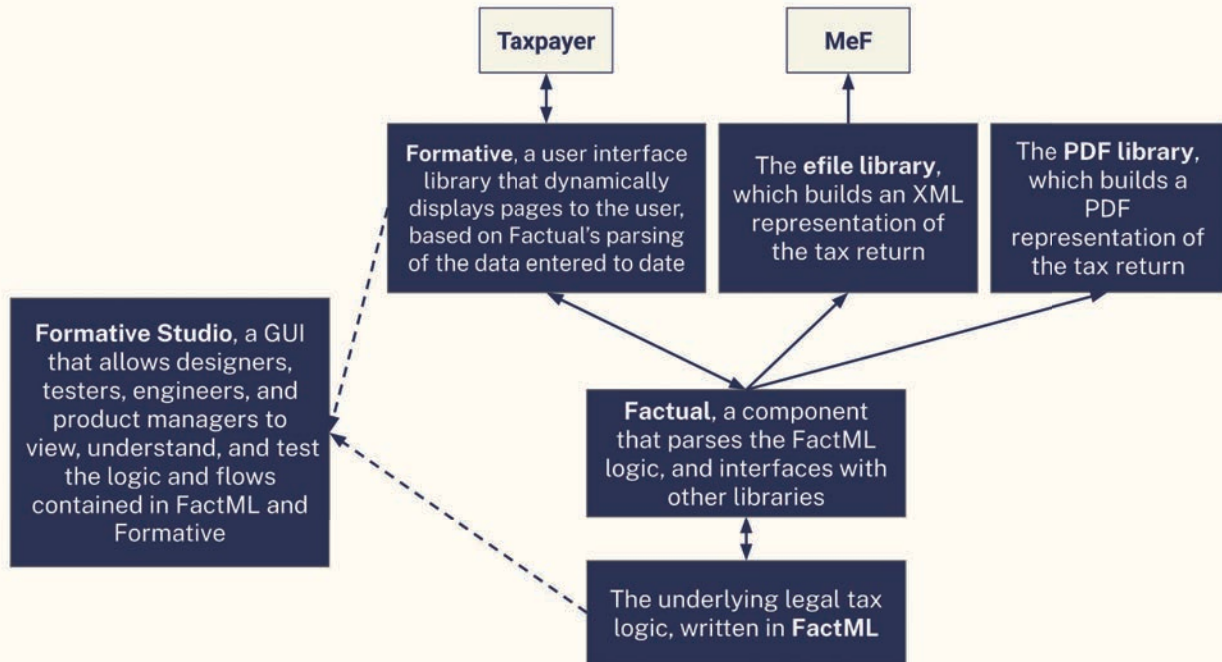
Formative Studio and Factual empower tax experts like Ruby and engineers like Max to be confident, capable stewards of shared civic tech products like Direct File.

These tools helped them work together to ensure Marylanders could get all the benefits they qualify for without having to jump to a separate state tool.

No more worries about Maryland maintaining its own system and no more worries that taxpayers could miss out.

How about that—it really worked for Maryland!

9.4.2 Components



FactML development primarily consists of four components: FactML itself (the fact graph), Factual (a parser for the graph logic), Formative (an interface library), and Formative Studio (the really new element — a back-end GUI that allows the cross-functional team to interact with the functionality).

- **Fact Markup Language (FactML)** is a generalized XML-based specification for defining legal code (that is, statute) as software code (that is, machine-readable instructions), which provides a framework for interoperability between domains and applications.
 - FactML is not the tax code per se; it's a specification for resolving the tax code into a piece of software. In the Direct File context, we would say that the Internal Revenue Code has to be represented *in FactML*. The FactML representation of the IRC contains all the relationships between facts that comprise the tax code.
 - Direct File more or less fully developed a notion of FactML, and has a representation of (relevant parts) of the IRC represented in this XML. The documentation of the specification is incomplete, though, and needs to be refined.
- **Factual**, a portable business rules engine that parses the relationships defined in FactML. Factual validates and derives conclusions from user-provided and imported data, based on the logic written in FactML, and provides information to other libraries in the application.

9. Direct File, fact graph, and a new way of building civic technology products

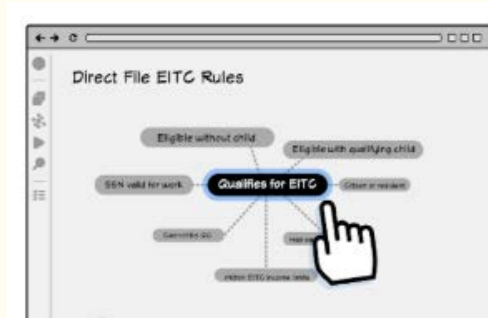
- Factual can be said to parse and create an instance of the fact graph. It is the interface between actual data and the logic in FactML.
- In Direct File, Factual was the component built in Scala, and was relatively robust. (There has been some debate about whether this is the appropriate language for this component.)
- Essentially, FactML and Factual *together* comprise the [much-discussed fact graph logic](#) that underlies Direct File; they are presented separately here since they are, properly speaking, separate components.
- **Formative**, an opinionated interface library for a user-facing application that collects and asserts information, displaying relevant questions and assertions in response to specified goals. In the Direct File case, this is the Direct File taxpayer-facing front end, which has the goal of collecting the information needed to generate a complete tax return.
 - ‘Opinionated’ means that the library contains a clear set of defaults about what good looks like. For example, Formative has the default that there ought to be one question per page.
 - Formative can be said to take the fact graph, as instantiated by Factual, and create a user interface out of it.
 - In Direct File, this component of the process was less mature. In fundamental ways, the front end was manually specified, rather than being dictated more abstractly by the interactions of the front end designs and the fact graph.
 - By constructing the front end at an appropriate degree of abstraction through Formative, the product team is able to avoid manual kludges and duplicative effort. Team members must specify the tax logic in FactML, and must create the appropriate language and interface in Formative. The complexities of flow and page show logic thereby should be able to be handled nearly automatically.
- **Formative Studio**, a graphical user interface for viewing, annotating, and testing the interfaces and tax logic contained in Formative and FactML. Formative Studio is the linchpin that enables effective collaboration between user experience designers, subject matter experts, and engineers, by making the entirety of the product tractable in a single interface.
 - This component was by far the least developed in the first years of Direct File. In 2025, Direct File introduced the all-screens view feature, which was only the first step toward the fully-fledged product we envision Formative Studio could become.
 - Formative Studio fundamentally does *not* let users *edit* FactML, or (at least in its initial incarnation) edit Formative flows. We are not proposing creating a GUI that allows subject matter experts to generate tax logic changes through a no-code interface; a subject matter expert cannot, for example, delete a fact from FactML through the click of a button. Instead, through a series of systematized views of the various components, the subject matter expert can define, describe, and annotate the deletion of that fact, thereby ensuring

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future team members understand why it was done, and greatly easing the process of communicating to engineers what the requested change is. Engineers, though, would still have to make any literal edits to the fact graph. In the long run, on the other hand, it is plausible that subject matter experts might be able to edit Formative flows (e.g., make content edits to existing pages) in Formative Studio without engineer involvement.

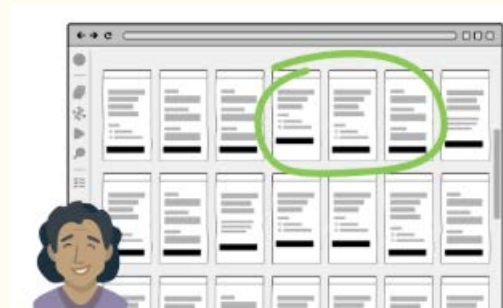
- At its core, Formative Studio allows users to tractably view and interact with the functionality implied by the previous components. Users would be able to view (a) the fact graph (which is to say, the logic in FactML), or (b) the pages of the user interface (which is to say, the functionality of Formative).

- The graph view is notionally explored in the middle panels of the storyboard in Section 9.4.1, above. It would allow a user to visualize which facts are driving other facts. To maintain legibility, it might show only one or two nested layers of facts at a time, allowing users to click down to additional layers as needed.



- There might also be the option to view facts in a non-graphical format, e.g., a searchable table containing the name of the fact, and a list of the other facts it stems from and contributes to.

- The user interface view is a view of the pages a user would see while going through the application, and is notionally explored in the penultimate panel of the storyboard.



- An early version of this — the all-screens view — existed in Direct File in 2025.
 - Users would also have the option of viewing filtered versions of all-screens — filtered by specific tax provisions (what are all pages that impact CDCTC calculation?), or by specific tax scenarios (for a specified test taxpayer, what are all the pages they would see, in what order?).
- Accompanying these views would be a scenario library, with saved taxpayer personas that can be created (a) manually in Formative Studio, (b) manually in the Direct File front end, or (c) using AI queries in Formative Studio (e.g., ‘create a tax household with these characteristics’).

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- At any time, the graph view or the page view could correspond to a particular loaded persona (or to the full set of screens/facts). The data corresponding to the persona could be modified interactively via the graph view or the page view.
- Annotations could be written and attached to pages or to facts, allowing users to document the intention of different functionality, why decisions were made the way they were, or, e.g., the legal review status of a component.
- In addition to the core elements, Formative Studio would require functionality to view and test non-flow functionality, like, for example, post-submission messages, or return PDFs.

9.4.3 The impact for Direct File

- By representing clearly and cleanly in Formative Studio the system constructed in the other layers, these tools allow designers, subject matter experts, and engineers to collaborate seamlessly, speaking a common language, and documenting decisions for future team members.
 - This does not mean no-code edits to tax logic; designers can't, for example, go into Formative Studio and create a new fact and corresponding page in the product. But they can use Formative Studio to define, in FactML terms, the use of the page, and to leverage Formative to streamline the process of designing and building the page. And they can communicate these requirements to engineers in a simple, tractable way. In the long run, they might even be able to edit the page content in Formative Studio. This would all radically increase the speed of development.
 - The team members can also use Formative Studio to leave a paper trail of why certain decisions were made, and how further changes should be incorporated in the future.
- Thanks to this common working space and language, states can build their own state tax functionality into Direct File itself, and do not need to maintain separate products.
 - In a world without these robust back-end tools, building pages and logic into Direct File is an essentially manual brute-force process. In this paradigm, including state tax logic in Direct File would require members of the Direct File team to design and build the functionality; there is simply not enough clarity and not enough abstraction to cordon off a component of the code where states can configure their rules.
 - With these back end tools, it becomes possible for separate state teams to build state-specific components into the Direct File codebase, building on the functionality already in the product.
 - As with the Direct File team, this does *not* mean that state employees can make no-code changes to the product. As on the Direct File team, state subject matter experts and designers would use Formative Studio to define specific changes required in FactML and Formative, which they would

9. Direct File, fact graph, and a new way of building civic technology products

document for (state) engineers. The state engineers would build these changes, and submit them as pull requests to the Direct File team. Because of the clarity of the set-up, these tickets for engineers would be far less work than under the status quo, and the pull requests would be relatively easy to review.

- The Direct File team would be able to define which portions of FactML and Formative flows states can and cannot edit. There would be state portions of the fact graph and state portions of the user interface. But it *would* be one graph and one interface. State provisions, for example, could draw on a variety of facts defined by the Direct File team.
- In this world, states *would* still need product teams. In fact, they would even need product teams versed in the Direct File development process. But, as explored above, the overall cost to states would be far lower than under the status quo.
- The integration would create some additional work for the Direct File team, who would have to review state pull requests and interface with state teams who had questions about the set-ups of FactML and Formative, especially in the early years. On the other hand, the state strategy under the status quo required effort from the Direct File team, too, managing API integrations for state tools, monitoring various relationships with independent products, and answering detailed questions about tax provisions that could not be viewed in a centralized back-end. All told, the increase in effort for the Direct File team is probably limited.
- Formative Studio dramatically speeds testing.
 - Testing a product like Direct File, to ensure that the tax return always matches the information a taxpayer enters, is an incredibly central part of the process. It's also incredibly tedious. Subject matter experts need to come up with taxpayer personas that collectively test all of the calculations and distinctions drawn in the software. Team members then need to manually create these returns in the product, and document the inputs that gave rise to them. Testers need to run these personas through the product and carefully review the output for any errors, some of which can be very hard to spot — especially since it can be hard to reproduce bugs in the user interface. Designing and overseeing a testing regime like this is very challenging at any level of complexity, let alone the complexity Direct File would reach in future years. Direct File — and integrated state tools that used Direct File output as their input — were more or less brute-forcing this entire process.
 - Formative Studio would greatly facilitate the testing process. Using the page view by persona, testers can easily confirm that the product is showing the right interface to the right taxpayers. Formative Studio would include an interface to store and annotate personas for further use. It could even use generative AI to create new test personas, rather than having to design and implement them entirely by hand.

9.5 Current status and next steps

Today, in 2026, some successor projects to Direct File, within the IRS and elsewhere, continue to build on these concepts.

It is our view that fully proving out this way of working requires a robust and substantive project in which to iterate and work out the kinks. Product development like this — and especially in the case of Formative Studio, product development is what we are talking about — cannot happen in a vacuum; there need to be actual users and an actual use case.

Direct File was of course the ideal use case. In the absence of its potential reanimation, where else might teams work on these ideas?

1. *Taxes in states.* Building a Direct File-type filing tool in states might seem like the obvious option; and, from a technical perspective, it has all the necessary attributes. But, for reasons we've discussed elsewhere, there is limited need for standalone state tax filing tools in our integrated federal-state tax system. States should not expect many taxpayers to use a standalone state filing product, since most will file their state returns however they file their federal returns. While the use case could prove sufficient for the technical work of FactML development, it's not a product that one would expect to have many users, and as such it might be hard for states to really justify the expense of the overdevelopment inherent, particularly, in the Formative Studio portion of the project.
2. *Taxes in another country.* FactML development could be piloted in the context of an entirely different tax code, in a country that, like the United States, is still lacking a free, public tax filing tool. Canada, for example, is such a country.
3. *Non-tax use cases.* We still hypothesize starting with taxes is advantageous, since designing for the most complex use case (taxes) will most likely create a solution that works for every use case. But starting with another use case isn't prohibitive, and the FactML suite could be developed in the context of a benefits application, or, perhaps better yet, an integrated benefits application for multiple programs.

Teams working in these domains could all serve to advance the ideas we lay out in this chapter. But the right next steps for technologists or policymakers interested in these ideas are admittedly unclear. We are talking fundamentally about a collection of ways of working, rather than any particular policy idea or well-circumscribed product — and technology teams will always be hard-pressed to develop a replicable way of working rather than to simply deliver the project at hand. In practice, bringing the ideas in this chapter to life may end up being a dispersed cultural shift more than a single specific breakthrough.

Part 3: Beyond Direct File: A Vision for the Future of Tax System Access

10. IRS communications

Gabriel Zucker, Chris Given¹⁰⁷

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[10.2.6 For further exploration: mass marketing campaigns](#)

Summary

- The IRS has insufficient mechanisms to communicate easily with taxpayers in the 21st century, which has implications for many agency priorities. (10.1.1)
- Taxpayers would appreciate easier-to-access communications from the agency, something they have to come to expect from institutions in their lives — including via email. At present, though, they expect the IRS will only communicate with them for punitive purposes. (10.1.2)
- Recommendations:
 - The IRS must adopt an improved, user-friendly secure messaging platform, for those sensitive messages that require encrypted communication. (10.2.1)
 - The IRS should open the door to communicating with taxpayers via email (10.2.2). The agency should assess each communication on a case-by-case basis to determine how much can be disclosed via email, taking seriously the risk of taxpayers not receiving communications sent through other mediums, and abandoning the too-broad blanket rule of no federal tax information in unencrypted communications (10.2.3).
 - Building trust in IRS communications will take time, and the agency should pursue a program of intentionally building that trust, starting with simpler and lower-stakes messages (10.2.4). Communications should use plain

¹⁰⁷ This chapter is significantly informed by user research led by Allison Abbott.

- language and a friendly tone, and should be user tested to ensure they are well crafted (10.2.5).
- The IRS may also consider mass marketing campaigns in support of these direct communications reforms. (10.2.6)

Many potential items to improve access to the tax system, including many of the items discussed in later chapters, require the IRS to communicate directly with taxpayers. In simpler cases, these are taxpayers who have already filed and may be expecting a follow-up communication; in harder cases, they may be non-filers who do not expect to hear from the IRS at all. In easier cases, the communications do not reveal sensitive information about the taxpayer; in harder cases, they do.

And yet, the IRS's ability to communicate directly with taxpayers is, at present, incredibly limited, for legal, inertial, technological, and cultural reasons. A viable communications platform and program may seem like a banal reform item, but we believe that implementing it would unlock a great many other agency priorities, and as such ought to be prioritized. **A modern IRS needs to communicate with taxpayers like a modern organization; it needs to communicate with taxpayers like they are real human beings. This is a baseline competency that will rebuild trust and unlock other, more exciting reforms.**

10.1 Background

10.1.1 Status quo and analogous use cases

The bread and butter of IRS communications continues to be notices sent via snail mail. Moreover, for many years, the IRS has publicly signaled that the agency will never communicate with taxpayers via email or phone — and, indeed, anyone purporting to be the IRS via phone or email is ipso facto a scammer.

It is no longer quite true, though, that the IRS can *only* communicate via mail. In 2023, [the IRS enabled secure online messaging via the IRS online account](#) — for taxpayers who have an online account. (We believe this is currently approximately 30-40 million people.) That is, the agency can send a notice to a taxpayer, accessible when logged into a secure session, through the ID-verified account. Generally, the taxpayer will receive an email (or, in principle, a text message — although, as of writing, such SMS functionality has not yet been implemented) notification that they have a message in the online account, but they have to log in to see it. This is akin to how many online medical messaging services work, for example: you receive an email that you have test results from your recent visit, and you have to log in to view those results. The IRS is facing the same basic constraint: email is not a secure enough medium for highly sensitive federal tax information — though, as discussed below, this is not a cut-and-dry bar on any information in the body of an email. (Such sensitive tax information may, meanwhile, be sent via snail mail to a known address.)

10. IRS communications

This messaging system is also akin to [the system established by the Department of Veterans Affairs](#) — though there are some differences in user-friendliness of the implementations. Generally, as of this writing, if the IRS sends a notice via the online account, it is simply an electronic version of the same notice they also send in the mail. This can be unwieldy to view and interact with in a web browser, and still worse on a mobile phone. The relatively more advanced VA system sends messages better adapted to the digital format.

Of course, this entire messaging service has another, more important limitation: it's only for taxpayers who have an online account. The IRS does *not* send emails or text messages to taxpayers other than online account users receiving notifications. (In fact, sometimes taxpayers create an online account and discover a whole slew of important messages in it that they did not previously know about; notices were sent in the mail but arrived at the wrong physical address, and, without an extant online account, no electronic notifications were sent.)

Note, though, that's not because the IRS does not *have* taxpayers' contact information. Phone number is a required field on all returns, and email is a required field on all e-filed returns (which represent over 93% of individual returns). The IRS *has* non-mail contact information for taxpayers; it just does not currently use it.

Meanwhile, in the special case of Direct File users, the IRS did in fact communicate with taxpayers via email. Users received notifications from Direct File when returns were submitted, and when they were accepted or rejected by MeF. Users also got reminders to finish filing if they had partly-finished returns, and, in some cases, reminders to finish their state returns. The IRS contemplated reminder emails to taxpayers in 2025 who had used Direct File the previous tax year and not yet filed, but this functionality was not used until filing season 2026, when the IRS used it to promote other filing options following Direct File's demise.

10.1.2 Taxpayer perceptions

In our user research sessions, we asked taxpayers about IRS communications — both in the abstract and in the context of specific communications we proposed they could receive, including reminders to file, notifications that their withholding might be too low/high, or notices that someone else had claimed their child, for example. We heard several key themes.

Receiving IRS notices is, today, a scary experience. Taxpayers instinctively assume the communication means trouble.

- *“IRS messages always cause anxiety... whenever you receive anything and you see that in your inbox, you're like, oh, my God, I don't have time for this today.”* — Participant #11
- *“Any time I see a letter or any notice from the IRS, I get like a little mini panic attack.”* — Participant #13

10. IRS communications

This was the case even (and perhaps especially) when we asked taxpayers to consider what it would be like to receive a wholly positive notice, for example that the taxpayer was due a refund. Partially, this fear stems from the empirical fact that taxpayers have generally had the experience of receiving an IRS communication only when there is trouble. **When we showed taxpayers sample hypothetical helpful messages, they said they couldn't believe the IRS would send something like this:**

- *“Yeah, I mean, it sounds nice. I can't imagine them actually sending something that sounded like that.” — Participant #13*

In the case of such non-punitive communications, **research participants suggested finding prominent ways to indicate, without having to open the (proverbial) envelope or delve deep into the message, that it was positive and non-threatening:**

- *“If there's some way that, like, in the subject, they're saying, ‘don't worry’ in big capital letters... The opening sentence really makes a difference... If they can add color to it, they can make it fun because it's not a penalty... they don't have to, you know, kiss the ground I walk on, but, hold my hand a little bit and wipe my brow, because now I'm sweating.” — Participant #11*
- *“Maybe they should put something like, ‘you're not in trouble,’ like on the envelope or something — like, oh, okay, I'm not going to shred it. There's a stamp of, like, ‘this is not a bill.’” — Participant #8*

We also asked taxpayers about how they communicate with other institutions in their lives that send sensitive information. **Some taxpayers told us they were used to and comfortable using secure messaging platforms in other contexts:**

- *“I work with the VA, which is a government agency, and we use a portal, which is secure... which seems to be working great for us.” — Participant #4*
- *“I communicate through bank apps, I suppose, and those are usually fine, but not always really efficient.” — Participant #6*

We asked taxpayers, in an ideal world, how they would like the IRS to communicate with them. Taxpayers were enthusiastic about receiving IRS emails, and receiving messages through an online portal — both mediums that people were familiar with. Taxpayers were, on the other hand, more skeptical of getting text messages, which they consider spammy.

- *“I would be okay with the email because I get email from everything else, my bank and every official thing I can think of. It's like the IRS is pretty much the only place that's like, no, we're not going to email you because I get email from every other thing.” — Participant #13*
- *“Yeah, I think they should, they shouldn't just send the letters, like maybe emails as well. I kind of travel full-time, like, my mail is sometimes everywhere, ... correspondence from anything serious, I would hope they send it to my email, or I go on the website, so I can check it... I don't think a lot of people are checking their mail, religiously” — Participant #7*

10. IRS communications

- *“IRS does always say we will never send you unsolicited texts.... I don't like phone calls and texts because those are so spammy, but usually emails you can verify if it comes from the official web address. ... So email would be good... It's more real time. So I like that convenience.”* — Participant #15
- *“I would probably prefer email. Email from the IRS seems very interesting and, or like, email to the inbox on the main portal of the IRS would be, and then get a notification to my email.”* — Participant #14
- *“We should all have an app where they can notify us on important updates.”* — Participant #3

Regarding secure communications portals in particular, we did hear **a specific complaint about platforms that hide too much information behind log in:**

- *“I don't like the ones that say, you have a new message, go log into your portal. I don't like that because then I've got to set aside time to log in. I like to be able to skim through my emails and see that, maybe save it for later. So I prefer some detail in the email... the ones that I like, you know, from credit cards, banks, medical bills, I like where it gives me some specifics as I'm skimming through.”* — Participant #15

Taxpayers do like the idea of getting helpful, non-punitive reminder messages from the IRS:

- *“And so everything else I have in my entire life sends me letters like this to remind me to do things that I'm supposed to do. The IRS should. They don't, but they should.”* — Participant #12, specifically about the idea of a reminder to file notice after April 15
- *“I think they should remind you, like, usually if you file taxes in the past, they have your email or contact information... I think they should let you know, because maybe you forgot.”* — Participant #15, specifically about the idea of a reminder to file notice after April 15

But taxpayers also believe the IRS does not currently send non-punitive messages, or emails. For taxpayers to be confident the messages are not spam, the behavior would have to be normalized; the culture would have to be shifted.

- *“If I just got this out of the blue, I would be like, there's no way the IRS is emailing me.”* — Participant #12
- *“It doesn't sound like something the IRS would do. So I think my first initial thought would be like, oh my God, it's a scam.”* — Participant #9, about a potential notice that their withholding is incorrect

To help them be confident a message was not a scam, several taxpayers mentioned sending the message via multiple means, for example via email and letter. (*“I actually think it would be good to have both because then you would feel extra sure, okay, this is the IRS.”* — Participant #15.) **Others mentioned sending notices indicating that the IRS would in the future be sending emails.** Some also floated the idea of learning about messaging campaigns via mass-market advertising:

- *“Something that makes me not feel like it's fishy....I feel like if I saw a legitimate advertisement, I would go, oh, all right, good to know. — Participant #1, specifically in the context of promoting Direct File*
- *“Maybe if I knew that they were going to start doing something like that, if they announced it...in a TV commercial.” — Participant #13*
- *“I would need to be notified in some other way, maybe an official letter from the IRS, saying we're going to start using emails — or like a TV commercial, some kind of source that I could trust.” — Participant #12*

10.2 Recommendations

The recommendations below account for the fact that some IRS communications contain highly sensitive federal tax information (FTI) and need to be transmitted via secure means; but some communications are not as sensitive. Section 10.2.1 concerns the transmission of secure messages; Section 10.2.2 concerns the transmission of non-secure messages; Section 10.2.3 concerns the relationship between the two. Sections 10.2.4-6, finally, concern the overall strategy of a prospective messaging program, as the IRS implements such widespread cultural changes.

10.2.1 Adopt an improved secure messaging platform

To transmit messages with highly sensitive FTI, a secure messaging service along the lines of the one the IRS has must remain an integral part of the system.

One compelling possibility is that secure messaging could be a common government-wide function, built and maintained by the General Services Administration (GSA). Many agencies face a broadly similar problem, with the need to securely communicate sensitive data to beneficiaries and citizens. Each agency solving this piecemeal creates inherent inefficiencies. A prospective government-wide messaging service, in many ways conceptually analogous to GSA's Login.gov, would obviate the need for the IRS to improve its existing service. Moreover, by unifying messaging services across agencies it might promote a better experience for users who would not have to manage so many distinct government accounts; and it could promote adoption, since a user who created, say, a VA messaging account, would now immediately have an IRS messaging account, too.

Barring a government-wide service along these lines, the IRS should simply work on improvements to the agency's existing secure messaging service.

In either case, like the VA implementation discussed in Section 10.1.1, the messaging platform should feature as much as possible native in-app messaging rather than un-skimmable and unwieldy links to PDFs. Notifications sent by email about the existence of a new secure message need to be as detailed as they can reasonably be without compromising privacy; as taxpayers noted, bland notifications that “you have a message” are hard to work with (more on this latter point in Section 10.2.3).

10.2.2 Communicate with taxpayers via email

We believe it is time for the IRS to end its (near-)blanket policy of not emailing taxpayers, and begin communicating with taxpayers via email, even outside the context of the online account. The IRS has email addresses for the overwhelming majority of taxpayers (as they are required on all e-filed returns, which [make up](#) over 93% of returns), and can greatly improve tax administration by using them — for reminders to file, for proactive alerts, for notifications of corrections to returns, etc.

The policy of not emailing may make for a neat soundbite in anti-fraud measures. But it is simply outdated, and it comes at too great a cost. Banks and medical institutions, dealing with similarly sensitive data and communications, have not chosen to categorically eschew emailing. Moreover, as noted above, the categorical claim that the IRS will never email you is not quite true: via online account notices and Direct File communications, the IRS already does email many taxpayers. In this sense, expanding an email communication program isn't even an unprecedented crossing of the Rubicon; it is the natural outgrowth of an expansion in the use of digital platforms.

The IRS should also consider this question in light of broader taxpayer perceptions of the agency. Despite improvements after the Inflation Reduction Act, the IRS has for years battled the perception that it is unreachable, that there is no way to be in touch with the agency. More frequent email communications would help in unwinding this perception.

Anti-fraud measures will be critical as the IRS expands email communications, and a team in charge of such communications will need to carefully track the issue and respond to it dynamically over time. Some mitigation measures could include:

- Sending the same message via multiple mediums (i.e., mail, and online account secure message), so the taxpayer can confirm its veracity.
- Containing a prominent link to the secure messaging platform, where the taxpayer can confirm the message.
- [IRS.gov](#) web pages where taxpayers can confirm the veracity of the communication.
- An IRS phone number taxpayers can call to confirm the communication.
- Distinctive and consistent messages, sent from a recognizable irs.gov email address, and with clear markers in the header of the message explaining how a taxpayer can be confident this is a valid message, and how to report issues if they see a message they are skeptical of.

Of course, even with the IRS's limited emails today (principally, that is, online account notification messages), it is already possible for bad actors to attempt phishing attacks by replicating the format. Rather if IRS communications were a more routine occurrence, taxpayers would have an increased ability to recognize the format and safeguards of legitimate messages, inoculating them against scams.

Arguing that the IRS should send emails is not a claim that fraudulent messages are not an issue — but rather that fraud and risk must be appropriately contextualized and managed,

and that abstinence, while it may feel like the safest option, maximizes neither security nor benefit for taxpayers.

10.2.3 Assess what information can be emailed on a case-by-case basis, weighing privacy against other priorities

We noted above that IRS messages may contain highly sensitive data, which it would be inappropriate and risky to put in an unencrypted email. The IRS recognizes this point with its **de facto policy that FTI cannot be put in any unencrypted message, including email. We believe that this is too strong of a rule, and that communications should instead be reviewed case-by-case, weighing the risks to taxpayer privacy against other considerations.**

First, we should note that the de facto ban on unencrypted communication of FTI is *not* statutory. Whether a given piece of data is considered FTI is [effectively defined in statute](#). But there is no statute or regulation we know of that specifies FTI can never be included in an unencrypted email; this is just an administrative norm within the agency.

Primarily, the rule is too strong because **not all FTI is created equal**. A taxpayer's W-2, containing their Social Security Number, their precise income, and their withholding, is quite sensitive; it is hard to picture taking meaningful privacy risks with an entire W-2. The fact that a taxpayer attempted to file a return (known at the IRS as fact-of-filing), on the other hand, is considered FTI, but it is far less sensitive, and perhaps barely sensitive at all. Indeed, fact-of-filing information is nearly-universally found in unencrypted emails sent by the tax prep industry; the data appears in tens of millions emails every year, and this has not given rise to any known identity theft vulnerabilities. It is a gross simplification to treat FTI as a monolith.

Instead, the IRS should analyze communications on a case-by-case basis — taking a **balanced view of the risks. Government agencies often tend to take a one-sided view: more disclosure increases the risk of privacy compromise, and is therefore inadvisable. But there are risks too from having a communication system that is too hard to access.** Suppose the IRS needs to communicate that a taxpayer is owed a very large refund, or that their return has an issue and needs to be resubmitted to avoid penalties, or that the taxpayer owes a debt accruing interest each day. If complex messaging systems prevent the taxpayer from seeing these messages and claiming the funds, there are real harms, which need to be weighed against the privacy risks. To put a finer point on it, suppose the IRS has evidence a taxpayer is currently the victim of identity theft, and wants to advise the taxpayer to take concrete actions to ensure the integrity of their return. In this case, if the taxpayer does not receive the message and does not take action, there could be *increased* risk of fraud and compromised privacy; in the interest of protecting privacy, in other words, the IRS would have in fact *increased* the risk of compromising it. Or, finally, suppose a blanket ban on unencrypted FTI pushes large volumes of sensitive messages into snail mail,

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which has been approved for sensitive data. This does not necessarily make taxpayer data any safer; mail can be compromised, too.

To its credit, in practice, the IRS sometimes recognizes all of these points. In 2024 and 2025, Direct File was permitted to send email notifications to its users about whether their returns were accepted or rejected, and reminders to file if they had not done so — emails that clearly imply fact-of-filing, and thus nominally contain FTI. The IRS made the (correct) call that, given the paramount importance of these messages, and given the low privacy risks of fact-of-filing in particular, the messages should be sent. However, these risk-based assessments are few and far between.

Our view is that IRS communications ought to make these kinds of reviews on a case-by-case basis, rather than treating “FTI can never be emailed” as a categorical rule.

The assessment should weigh the privacy risk to the taxpayer against the value to the taxpayer and come to sensible risk-based conclusions. A message, for example, that tells a taxpayer that they didn't file for a given year and may be due a significant refund, should be able to be emailed. The communications apparatus needs an empowered team, able to make risk assessments on behalf of the agency, that can review draft communications with an eye toward finding ways to include as much information as needed to motivate action in email messages, rather than relying solely on “you have a message” notifications. Even in cases where most of a communication is protected — for example, a specific numerical update to a protected number on a tax return — unencrypted email communications can *describe the nature of this update*, while leaving the full details to a secure communications platform. The unencrypted communication, for example, may read: “We found a math error on your tax return, and adjusted the amount of a credit you claimed, which changes your refund amount by more than \$100. Please log in to see more details.”

10.2.4 Send more messages and take the time to build up trust

None of the above recommendations resolve the fact that the IRS is, as revealed in the user research, starting from a challenging baseline. Taxpayers are in general afraid to receive IRS communications. They have been taught that those communications will not come via the mediums they would prefer, and they are predisposed to expect any communications will be punitive. And indeed, this all maps fairly closely to the present reality that most IRS notices today do come in the mail, and are generally more likely to be about bad news than good.

These are undoubtedly obstacles. But our view is that the only way out is through. **The way to get taxpayers more accustomed to receiving IRS notices via email is to start sending more notices via email. The IRS may consider starting with easier, less controversial, less prone-to-misunderstanding types of notices (for example simple reminders to file), before moving on to any that have some complexities** (for example second-best automated returns, as discussed in [Section 14.3.3](#)). As the IRS sends more messages, people will learn to recognize legitimate messages and calls-to-action, and will better be able to distinguish them from phishing attacks.

The IRS shouldn't become a spammer, sending multiple messages a week and dozens throughout the year. But erring on the side of more messages as part of a concerted campaign to build trust and get taxpayers accustomed to the communication is, itself, an end worth pursuing.

10.2.5 Use plain language and a friendly tone, and user-test communications

In written communications, to state the obvious, words matter. One way the IRS can make taxpayers more comfortable is by speaking in a way that inspires trust.

Direct File, indeed, received some feedback during its operations that its language had managed to alleviate taxpayers' traditional fear of the IRS — language that was clear and specific, but that still treated readers like everyday humans, without retreating into jargon. This impression was not an accident: it was a function of a design team focused on striking such a tone, on providing the right amount of information at each point, and testing the wording with users to learn more about how it was being understood, and iterating accordingly.

Applying these same principles to other IRS communications — notices, emails, secure messages — will help taxpayers understand and trust those communications, too.

10.2.6 For further exploration: mass marketing campaigns

As noted above, some research participants mentioned they would better trust direct IRS messages and take more seriously new IRS offerings (e.g., Direct File) if they were also hearing about these topics via mass-media commercials. And, indeed, there is precedent for the idea that federal agencies ought to use advertising budgets to get their message out to everyday people.

On the other hand, mass marketing comes with its own complexities — and advertising and marketing are precisely those types of domains where there may be a gulf between what people say they will respond to, and what they actually do respond to.

It is worth considering whether paid marketing campaigns at the IRS would be advisable, though more research and investigation would be needed before moving forward with this idea. There also may be statutory bars to the IRS engaging in certain marketing activities.

11. Real-time taxes (estimated payments, withholding, advance payments, and the gig economy)

Chris Given, Gabriel Zucker¹⁰⁸

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Summary

- Even in our fast-paced world, the tax system operates on a fundamentally yearly cadence, with taxpayers paying in throughout the year, and potentially due for a rude surprise if their payments turn out at filing time to have been wrong. Making the tax system more real-time would be a tall order, and we do not necessarily argue it

¹⁰⁸ This chapter is significantly informed by user research led by Allison Abbott.

deserves to be prioritized given the immense effort involved. But, this chapter contends it would be a positive project, and lays out what it would entail.

- At present the systems to manage and track payments throughout the tax year are antiquated and leave the IRS without clear data on a taxpayer's status before filing time. Some taxpayers — especially gig economy workers — also must navigate complex processes to stay in compliance. Advance payments of tax credits, if implemented, add another layer to the real-time tax system, requiring some taxpayers to adjust their withholding or estimated payments to stay in compliance. (11.1)
- Many taxpayers are very uncomfortable when it comes to withholding and estimated payments, especially in the gig economy (11.2.1). Most taxpayers also have a strong interest in ensuring they are paying in the right amount. Owing the IRS at filing time is seen as a very bad outcome to be avoided at all costs; paying in far too much and receiving a large refund is preferable but still far from ideal (11.2.2).
- Taxpayers would find it very useful if the IRS helped them track and fulfill their tax obligations throughout the year, especially for gig economy income (11.2.3). But they would not want such a service to automatically make changes on their behalf, and they would be concerned about overreach (11.2.4).
- Next steps and recommendations:
 - The IRS should introduce withholding for gig economy workers. Step one is probably a pilot with a few large gig economy employers. If the pilot goes well, scaling it further may require statute. (11.3.1)
 - The IRS should create a new product that helps taxpayers track and fulfill their tax obligations throughout the tax year (11.3.2). Using status quo data, there is a limited amount this product could do (11.3.3); to make the product more useful, the IRS needs more real-time data during the year, a reporting reform that may be achievable in the context of H.R. 1 implementation (11.3.4). With this additional data in hand, the real-time product would become immeasurably more powerful and useful (11.3.5).
 - Advance payments of tax credits represent a complex real-time taxes challenge that we believe policymakers should approach thoughtfully. (11.3.6)
 - Taken together, these piecemeal reforms would move the United States closer to a pay-as-you-earn (PAYE) system. Some reformers may advocate a more thorough and holistic PAYE reform than the a la carte measures laid out here; but we believe such smaller iterative measures are the most viable route to larger reforms. (11.3.7)

The overall structure of the income tax system in the United States has a curious shape. Throughout the year, taxpayers earn money and pay into the system. Exactly once a year, taxpayers do a wholesale reconciliation between what they paid and what they ought to have paid. If they paid too much, they receive the excess as a refund, with the government

essentially having held that excess as an interest-free loan throughout the year. Still worse, if they did not pay enough, they pay the excess, sometimes with fees and interest.

In a world where information moves so quickly that even the idea of a daily-published newspaper seems like a hopeless anachronism, **shouldn't taxes be administered at something better than a yearly cadence, with this yearly crapshoot reconciliation process relegated to the past?** Indeed, other countries have regimes commonly called pay-as-you-earn, in which taxes are effectively calculated in real time and the yearly reconciliation is nearly nonexistent for most taxpayers, or at least a minor event.

That said, there are important differences between the U.S. tax system and that of countries with true pay-as-you-earn systems. Notably, the U.S. tax code is based deeply on family structure in a way that makes taxes extremely dependent on family events that the tax agency cannot perceive, at least in real time. The U.S. tax code is also more laden with tax benefits that alter taxpayers' bills in perhaps unpredictable ways. And, the U.S. taxes more forms of income than, for example, the United Kingdom. Finally there are existing taxpayer expectations from familiarity with the status quo: whether or not pay-as-you-earn makes more sense, there is the question of whether taxpayers accustomed to the current model would react well to its hypothetical implementation.

This chapter explores how tax administration works throughout the year, in terms of withholding, quarterly estimated payments, and advance payments of credits, including what data is available to tax agencies, what changes taxpayers would like to see, and what solutions might improve the taxpayer experience. Although getting all the way to a true pay-as-you-earn system is probably impossible under current law, the evidence suggests taxpayers would appreciate measures that move the overall system in that direction. Collectively, we refer to this set of issues and recommendations as the real-time tax system.

We offer this entire chapter with an important caveat: some of the impactful reforms detailed below would be monumental implementation challenges, whose pursuit would necessarily distract from other worthy reforms. **We think the information below speaks for itself in making the case that the real-time tax system is one worth building on its own terms. But whether it is worth the trade-offs required to prioritize it is a question policymakers will have to answer in context.**

11.1 Background: the status quo

This section briefly reviews the basic legal and administrative structure of the tax system during the tax year.

11.1.1 Requirements and infrastructure

Legally, taxpayers owe tax to the government in real time throughout the tax year, as they earn their income. Taxpayers are required to make these payments into the system throughout the year, or else pay interest on the late payment of tax.

When taxpayers earn salaries or wages on W-2s, the employer generally takes money out of the taxpayer's paycheck, and remits it to the tax agency, as payment of the taxpayer's tax; this process is *withholding*. W-2s are basically unique in this regard — while withholding is technically permissible for other income sources reported on other forms, it is not standard, and generally withholding is only paid via W-2s.

To determine the amount of withholding paid from W-2 wages, taxpayers send their employers Form W-4, which provides relevant information on their tax situation (principally family structure). The W-4 notably changed drastically after the enactment of the Tax Cuts and Jobs Act (TCJA) in 2017, and some taxpayers still refer to older versions of the form. While the W-4 is properly speaking just a document designed to calculate correct withholding for a specific W-2 job, the W-4 does also ask about *other* income. This accounts for the math of graduated taxation, and enables taxpayers to use their W-2 withholding from a job to also pay their tax on income from non-withheld sources, like interest. For example, a taxpayer with \$30,000 in W-2 income and \$10,000 in interest income would have their W-2 withholding increased to account for the additional \$10,000.

If a taxpayer's withholding is less than their total tax liability, usually because of significant non-W-2 income (including gig economy income), they are required to proactively make estimated tax payments quarterly. These payments are generally made directly on the IRS and state tax department websites; as far as we know, there are not significant third-party tools for this process. In the case of the IRS, notably, the estimated tax payment infrastructure is included in IRS.gov/pay functionality, which is separated from the rest of the IRS online account.

11.1.2 Data systems

For W-2 employment, the IRS¹⁰⁹ receives *total* withholding payments from employers on a quarterly basis, via Form 941. But Form 941 payments are aggregated across all employees; the report does not actually identify which employees this withholding belongs to, much less the corresponding income of those employees. The IRS does not receive W-2 income information, or any individual-level information at all, until it receives W-2s in January.

This set-up has a few implications. First of all, information is currently received at *best* quarterly; the IRS knows nothing at a cadence less than 90 days. Second, and more

¹⁰⁹ Throughout this section, when we say IRS, we mean by extension state tax departments as well, although some state equivalents of Form 941 include individual-level withholding data. States also have access to quarterly individual-level earnings via unemployment insurance programs, but these would not include individual-level withholding.

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important, even the quarterly data is aggregated. The IRS has no information about the income or withholding of an individual person until early the following year.

Most W-2 payroll is managed by a handful of large payroll processor companies (such as ADP, Paychex, and Intuit QuickBooks Payroll). Note that these companies have an incentive to maintain key portions of the status quo: the providers often collect withholding from small- and medium-sized employers biweekly, and earn interest on the money in the interim before it is paid to the IRS at the end of the quarter.

For all other forms of income (including gig economy income), the IRS receives no data whatsoever until information returns are filed early the following year, at which point the IRS learns how much income each taxpayer earned (plus, in the very rare case the other income sources are withheld, the withholding amounts).

11.1.3 Advance payments

To help ensure taxpayers do not have their money locked up until tax time in April, policymakers have often proposed or implemented advance payment programs, by which tax credits (usually the CTC, sometimes the EITC) are issued in periodic payments throughout the tax year, in *advance* of their full claim at tax time. Most prominently, the IRS implemented a half year of CTC advance payments in tax year 2021. Currently, Minnesota has advance payments for its state CTC. By changing tax system cash flows during the tax year, these payments are properly understood as components of a real-time tax system.

For some low-income taxpayers, such schemes are the only way to prevent a large refund in April, because these taxpayers have negative net tax liability — that is, rather than owing any tax, the tax system owes them money, thanks to refundable credits. If a taxpayer is eligible for \$2,500 in EITC and their total tax liability (including the credit) is *negative* \$2,000, even zeroing out withholding will not prevent a \$2,000 lump sum in the spring; only issuing the EITC in advance will do so.

For other taxpayers though, advance payments are, in accounting terms, substitutes for adjusting withholding. Suppose a taxpayer has \$2,500 in gross tax liability, and they have their withholding set up correctly to pay \$2,500 into the system over the course of the year; their refund is \$0. The taxpayer suddenly becomes eligible for \$2,000 in CTC. (Suppose for simplicity there are no other credits in the picture.) If this taxpayer does not change their withholding and does not receive advance payments, they will receive a large \$2,000 lump-sum credit. But they can also simply adjust their withholding to spread the credit across the year; instead of paying in \$2,500, they can simply pay in less, totaling \$500. This is mathematically equivalent to keeping their withholding unchanged and receiving \$2,000 in advance payments.

This dynamic can actually introduce a challenge for advance payments in the case of taxpayers who, like this one, receive a credit non-refundably. Suppose the taxpayer does adjust their withholding downward in light of the \$2,000 credit; they now pay in \$500

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throughout the year and receive a \$0 refund (\$2,500 tax liability - \$2,000 credit - \$500 withholding). Then, the tax department starts issuing the \$2,000 credit wholly in advance payments. At tax time, the taxpayer has \$2,500 in tax liability, against which they have paid \$500 withholding. But they can no longer claim \$2,000 in credit; they've already received that money during the year. So they now owe \$2,000 (\$2,500 tax liability - \$500 withholding).¹¹⁰ If they do not want to owe at tax time, they will need to edit their withholding back up \$2,000; the advance payments and the withholding are, in arithmetic terms, simply canceling each other out. (Of course, they may not be perfect substitutes in terms of politics and perceptions; advance payment advocates argue that the payments increase the salience of a credit, making the credit more tangible in the eyes of recipients/voters.)

This is to say nothing of the more commonly-discussed implementation challenge: eligibility can change during the course of a year. If a credit is for a child, for example, the taxpayer may not claim the same children this year as they claimed last year, for any number of reasons. Advance payments are paid based on last year's taxes, on the assumption that nothing has changed. Suppose our taxpayer with \$2,500 in pre-credit gross tax liability knows they are not going to claim the same children as last year, and adjusts their withholding upwards to \$2,500. But if the tax department still issues advance payments based on the prior year eligibility, they will again find themselves owing the \$2,000 back, when it transpires upon filing that the advances were collected in error.

The issue is resolved through a combination of taxpayer responsibility to make real-time updates and safe harbor provisions protecting taxpayers who fail to do so. But of course, the ability to make real-time updates is closely related to the functioning of the real-time tax system in general.

11.2. Taxpayer attitudes

During our user research sessions, we asked taxpayers how they determine their withholding and estimated taxes, we probed whether they prefer to get refunds or pay in the right amount, and we explored what kinds of tools would be helpful to taxpayers in making this process easier. In our user research recruitment we over-sampled for gig economy workers, who are more likely to have complicated experiences in this domain. Moreover, because we were compensating research participants through an online user research platform, all of our participants inherently had *some* gig economy income.

¹¹⁰ During the 2021 implementation of the Advance Child Tax Credit, this dynamic would have been muted since, (1) only half the credit was paid out in advances, and (2) the advance payments were paired with an expansion in the size of the credit. This meant that taxpayers' net liability at year end only increased by a maximum of \$500 per older child and \$200 per younger child, instead of \$2,000 in this example.

11.2.1 Many taxpayers are very uncomfortable when it comes to withholding and estimated payments, especially in the gig economy

Many participants taxpayers said they were basically shooting in the dark regarding their withholding and estimated payments.

- *[How confident do you feel on a scale of 1 to 10, that you're withholding the right amount of taxes?] "Absolutely not. Probably zero." — Participant #7*
- *[How do you determine your W-2 withholding?] "Wild, wild, wild guesses" [How confident do you feel on a scale of 1 to 10, that you're withholding the right amount of taxes?] "Negative two...I just feel like it's like a guessing game." — Participant #9*
- *"I mean, the way I'm doing it now is very unconfident. I'm not sure if I'm doing it right" — Participant #14*

This confusion had led to some nightmare stories:

- Last year, Participant #15 set aside \$4,000 in a savings account throughout the year, to cover her expected tax liability, but then learned she owed \$7,000 when she filed. She's now paying off the \$3,000 via a credit card, while also withholding more from her W-2.
- Participant #9 had not made estimated payments herself, but had done so for her mother's taxes — only after things had gone quite wrong. *"The first year that we didn't do it, [the tax bill] was so high that I was like shell shocked."* — Participant #9
- Participant #5, a gig economy worker with highly fluctuating wage income, reported having unintentionally set up his withholding so it was far too high, up to and including sometimes receiving a \$0 paycheck.

Some taxpayers expressed more confidence, though even then, it wasn't 100%:

- *"I mean, the exact right amount, I'm not confident at all. Something in the ballpark that's not going to get me penalties, I feel fairly confident, like an eight or nine."* — Participant #6, the only participant who reported paying regular quarterly estimated taxes
- *"I would probably say it's at like a seven or an eight. And the reason why I say that is just because, I guess since January, there have been so many things that have changed tax-wise, law-wise.... There's so many different ways to earn income now and there's so many different ways they're taxing things."* — Participant #11

Partially the lack of confidence came from the difficulty in just keep track of income and payments:

- *"How much more do I need to save? Especially because it's not just my W-2, where they list it up, and you can see your year to date... But to find year to date with all this other stuff, you'd have to go to every account and your bank accounts. And I have payments through like PayPal, Zelle, and Venmo. So I have to go in and calculate all of that up for*

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each client separately. So that's what makes it really hard to keep track of. — Participant #15

It was also clear that there is no single place where taxpayers regularly learn about these topics — about the need to do quarterly payments, or about when one might update withholding. Generally, participants told us about learning about their responsibilities from past mistakes, or offhand from friends who had potentially similar situations. There is no “welcome to the gig economy” information that taxpayers receive when they start earning 1099 income.

Of the participants with gig economy income, only one actually reported making regularly quarterly estimated payments. Most were not making such payments at all, or at least not making them quarterly.

- Some said they would as their business got bigger, or “more formal” (Participant #12)
- Participant #11 reported saving money throughout the year in a high-yield savings account, and making four estimated tax payments right before the annual deadline.
- Many participants were explicitly or tacitly using their W-2 withholding to cover their gig economy income.

One participant had previously made quarterly payments for a business they no longer had, and reported that learning how to do it was a challenge:

- *“I owned a magazine before and I did have to do quarterly taxes for the magazine and they were ... really scary when I first started doing them. They were extremely overwhelming. ... But in the beginning, I was like, oh my gosh, this is scary. If I do this wrong, I'm going to go to jail.”* — Participant #12

To the degree that participants had a system for figuring their estimated payments, it was almost always simply based on the prior-year return (which is, in some but not all cases, an accurate strategy).

We conclude that there is plenty of opportunity space here for a product that eases anxiety and helps taxpayers avoid nightmare scenarios.

11.2.2 Taxpayers very much want to avoid owing money, though they generally don't want big refunds either

We also probed about taxpayers' attitudes about the size of their refund. Did taxpayers prefer to pay in the exact right amount into the system, such that they had a \$0 refund? Did they not really mind getting a bigger refund, because the refund served as a useful savings mechanism? How bad an outcome is it if they owe money? The strength of taxpayers' opinions on these questions determines the importance of a product to precisely manage real-time taxes.

First, we heard near-universally that taxpayers very much do not want to owe taxes when they file, citing not wanting to be “in trouble” with the IRS.

- *“You don't want to mess with the IRS. You don't want to owe them.” — Participant #4*

Beyond this, opinions varied. Most people were interested in paying in as close as possible to the right amount, though they often said they know others who prefer a large refund.

- *“So from a personal standpoint, I like getting kind of that closer to zero refund at the end of the year. I hate owing, but it's best to just pay in what's due and have more money throughout the year. From what I've been seeing and what I hear, most people seem to like that huge refund.” — Participant #10*
- *“[I prefer paying the exact right amount,] because then I have my money for longer and can use it to invest or spend however I need, rather than having the government have my money and then give it back to me.” — Participant #6, who later said he'd want to be within 10% of correct*
- *“Up to this past year, I didn't mind owing a little bit. [But last year,] the difference was so big, and I'm still paying it... I don't like being in that situation. So I would rather overpay. Definitely.” — Participant #15*
- *“I would want to have it exactly right, but...I'm the type of person, like, I'd rather go a little bit earlier, so I know I'm not late. So it's like, me personally, I probably would still over-withhold just a little bit” — Participant #7*
- *“Yeah, I'd rather have a little bit of a refund than have to owe.... So, I mean, there was one year that I owed and it was when I was unemployed and I forgot to have the taxes withheld from my unemployment. ... And when I filled out my unemployment claim last week, I'm like, yes, hold the taxes, please. I don't want to have to owe next year. ... I like to have it be as close as possible.” — Participant #1*
- *“I'd rather just pretty much break even on my taxes...But sometimes there's people that like to have that, that big chunk savings.” — Participant #4*
- *“I feel kind of slightly overpay to the tune of getting me a refund, if that makes some sense. I don't mind breaking even, but I definitely don't want to overpay to the point where now the IRS is owing me five thousand or more dollars, because that means I really did not do the math right.” — Participant #11*

One participant explicitly preferred overpaying to get a large refund:

- *“I guess I would choose to have more withheld so that I could get the bigger refund...And I know there's people that argue against that and they say you're just loaning the government money interest-free. Why do you want to do that? That's all you're doing. Don't get excited over a big refund. But it's just nice to kind of have that to kind of count on. ... if I don't do that and I rely on myself to set money aside like in a savings account, I'm going to drain that. I can't count on myself not to touch that. But if it's gone, if it's out of my check, it's held and I don't have access to it.... It's like a kind of foolproof savings.” — Participant #13*

Some taxpayers prefer — or at least don't mind — overpaying; but many want to be as close as possible to the right number, and even those who don't mind overpaying seemed to express there was a limit. **There is fairly widespread interest in paying in something near the right amount.**

11.2.3 There is space for the IRS to help with gig economy income in particular, and taxpayers would spend a limited amount of time using it

Between the anxiety and bad outcomes discussed in Section 11.2.1, and the moderately prevalent desire for payments throughout the year to be correct in Section 11.2.2, **we can infer there would be space for a product solving the real-time payments problem. Many participants validated this directly:**

- Participant #7 described “a user-friendly IRS website that you can enter in your current situation” and see if she’s “in the red, or the green” regarding her withholding.
- “An app or something that kind of puts all that data together and says, okay, you made this much here, you made this much here...and then if it pulled that tax information and said, this is your estimated tax thus far. I think that would be super useful...I could actually be willing to do quite a lot [to use such a product] because that's a huge time saver compared to going through each account.” — Participant #15
- Regarding a potential product that would track income and payments throughout the year: “That'd be a service....And I think the part of that, that I would really like, it would just be the peace of mind.... I don't honestly think it should be a service that we would have to pay for because I feel like the IRS should just tell us, because they know.” — Participant #9

When taxpayers were wary or, in one case, entirely uninterested, it was usually not because the product would be in principle unhelpful, so much as that they did not trust it would necessarily be correct — a dynamic discussed further in the next section.

Overall, though, participants felt this was the right role for the IRS — rather than, for example, an employer who is helping to manage withholding, or another third party. One participant said they thought, of any actor in the ecosystem, the IRS would be likely to be “the most right.”

As part of this broader potential product experience, we asked taxpayers to reflect on a potential world in which the IRS saw that their withholding or estimated payments appeared to be wrong and **sent a notification recommending they update their withholding or make a payment. Again, with the caveats discussed further below, taxpayers were very enthusiastic about such a program.**

We asked taxpayers how much time they would be willing to spend using such a product, to improve the accuracy of their withholding/estimation. Most said they would be willing to spend around 15 minutes to an hour — which is, admittedly, not necessarily a lot of time. In

some cases they acknowledged that they would trade off spending less time for less precision:

- *“Less work for more of a ballpark, just because people’s lives are busy.” — Participant #4*

11.2.4 But taxpayers really want to be in control, and were concerned about overreach

The interest in such a product, though, came with several important caveats, all of them generally reflective of the notion that participants had limited faith in even the IRS’s ability to get it exactly right. Taxpayers were wary of anyone but themselves being in the driver’s seat. They emphatically did not want any actor, including the IRS and especially their employer, to *automatically* make withholding changes on their behalf.

- *“I need to know what’s going on....I would want anyone to communicate with me first, and then I make the decision on what I want to do... Like, you don’t know what is going on with me. So don’t make those decisions for me.” — Participant #8*
- *“I want to be kind of the director of that ship. I’m an adult, I’m independent of the government, I want that choice... it’s my right to have that control over that.” — Participant #15*
- *“I need the transparency and the communication. Just like I wouldn’t want a bank to do anything automatically or any other financial institution to do anything automatically without me knowing that would affect my finances as well as my cashflow. I just want to be in the know so I can be prepared.” — Participant #11*
- *“Them just automatically updating it — I see more harm than good with that.” — Participant #10*

Sometimes this desire for autonomy came in the same breath as the acknowledgment that they might not fully understand the tax system, and there is a lot they don’t know. Even so, taxpayers said, they want to be in control.

- *“You know, I think that people ought to have as much autonomy as possible. But it’s so intimidating... the whole tax code is just, it’s just like a foreign language to me anytime I’m trying to figure things out on my own with regards to that. And you’re so worried about penalties, you just don’t want to get it wrong. But you don’t want them necessarily just dictating everything too, because that feels wrong. So in a perfect world, it would be me [making the decisions], but there would be some kind of easier way to understand the information so you would feel more confident.” — Participant #13*

Many participants cited specific pieces of data the IRS would not know (unreported income, family changes), which would cause the IRS’s recommendations to be wrong. One taxpayer even said he was explicitly uninterested in the product, precisely because he thought it would be so unreliable:

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- *“I don't think I'd be comfortable with that because in order for that to work, they would need to have access to all my finances to know exactly what it is that I'm going to be deducting.”* — Participant #6, also the one participant who reported making regular quarterly payments

The aversion to automatic changes even spilled over to reluctance to receive recommendations from the IRS, which might be inferred as directive:

- *“I would feel like they were telling me, ‘you better change it,’ even if they phrased it all like friendly and just trying to be helpful and everything. I would feel like they were instructing me to make that change somehow. So I would get a little nervous and I would feel like I needed to change something. Even if I felt like it was okay, I'd be like, well, if they think so, then I must be doing something wrong.”* — Participant #13

One participant also mentioned concerns about the IRS having *too much* access to data:

- *“I would like something that could kind of monitor my separate accounts. I wouldn't want it, you know, visible to the IRS. I don't like them in my bank accounts.”* — Participant #15

One noted that **the product could engender more confidence if it showed its work:**

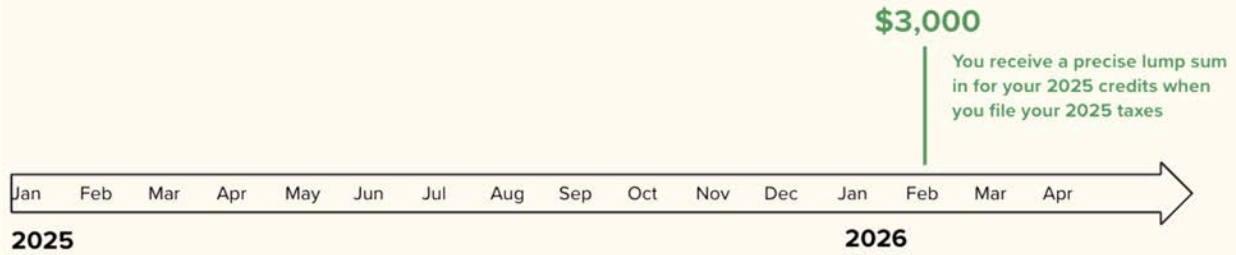
- *“Probably what would make me more confident is just having them showing their notes of — hey, look, we've seen it come through on this 941 from these, investments have the foreign income tax taken out of it, or from what their sources of the information are. Just kind of the proverbial Wizard of Oz from behind the curtain of, hey, from our sources, you're going to owe \$2,000. Well, where are you getting that math? When I do my return, I'm showing I'm a break even. No, you're actually going to owe \$2,000. We'll show you. So having them show their work or see where they're getting their sources from...would be a great help.”* — Participant #10, who is also a tax accountant

It's important, of course, to take this with a grain of salt: taxpayers' desire for control may simply be a reflection of the fact that the IRS doesn't currently have enough information to execute such a product well, and hasn't proven itself up to the task of similar projects in the past. These are perceptions that could — and, via the program described below, *would* — change over time; changing these perceptions would indeed be part of the point. But, this is the current state, and it is important to take it seriously as a starting point, and not force people into a world they are uncomfortable with.

11.2.5 Taxpayers are wary of advance payments under the current system

We also asked taxpayers about the prospect of getting their credits in advance payments, using the 2021 Advance CTC regime as our example. The scenarios are shown here.

Receiving Credits: Version L



Receiving Credits: Version E



First, and perhaps surprisingly, although many of the participants had eligible children during the 2021 CTC experience, almost **none of the participants appeared to remember that the 2021 Advance CTC had occurred**. Participants treated it as a novel idea, one that they would be surprised to come across in real life.

- “So they’re actually thinking about doing that?” — Participant #3, who already had three children in 2021

Second, taxpayers’ reactions in our user research were generally negative. The reaction appeared to be driven by the uncertainty in the advance payments, engendered by the fact we described the advances as “estimated” payments — the idea the advances could be deemed wrong was what most upset participants. At least one cited a personal experience of Advance Premium Tax Credit payments having later been determined overgenerous due to mid-year income changes. In this sense, the presumptive eligibility regime and the high phaseout included in the final Build Back Better language could have assuaged taxpayers’ concerns. But, for the most part, taxpayers did not express that they liked the idea if it could be finagled to work; they just thought it sounded like a problem waiting to happen, and not worth it — or, at the very least, not a priority.

- “Nope. Give it to me afterwards.” — Participant #4

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- *“I don’t know if I like that [advance payments]. But I think it would be good to get an extra \$250, but not, you know, then not being aware if you’re going to owe or not. Yeah, I don’t like that.”* — Participant #3, who said he would opt out of such a system
- *“Now you owe all that money back because something happened in your tax situation, like with my child, that I wasn’t expecting... Yeah, I mean, it kind of stinks waiting for it, but I’d rather be sure. I guess I’m not one of those risk takers, especially, you know, having to pay bills. I’d rather get a surprise at the end of like a Christmas present instead of a bad surprise, like, oh, no, never mind.”* — Participant #15

There is of course countervailing [research](#) showing that taxpayers’ opinions about periodic payments in the abstract are generally more negative than what they report after having actually received them. A July 2022 [survey](#) by the Urban Institute, for example, studying the same 2021 Advance CTC payments, researchers found that 45% of nonelderly adults living with children preferred having received the advance CTC payments, while 27% preferred a single payment as part of a tax refund and 28% had no preference. Similarly, a 2015 [Chicago pilot](#) studying the impacts of periodically paid EITC found that 90% of those who received periodic payments preferred them to a lump sum. It is certainly possible taxpayers would be happy to receive advance payments, despite what they report.

Still, it is worth considering taxpayers’ comments in the larger context. When looking at the functioning of the tax system and timing of payments throughout the year, lots of things currently don’t work well for taxpayers. **There are many specific reforms they would find helpful, that would strongly reinforce their faith in the tax system. It seems that advance payments would only do so if designed in a way that gave taxpayers a high level of certainty about their accuracy. Otherwise, they risk presenting a variety of implementation challenges that resemble the same themes that taxpayers are most concerned about.** While our research shows a clear preference among taxpayers for staying roughly ‘square’ with the IRS throughout the year — avoiding large refunds or unexpected bills — that preference does not necessarily translate into a desire for advance payments, at least among these participants, and at least in the hypothetical.

11.3 Solutions

Even our limited user research is more than enough to conclude there is very likely a useful product here — something tax agencies could provide that would make a meaningful improvement in the lives of taxpayers, who struggle with making the right payments throughout the year and do not currently have good solutions.

11.3.1 Withholding for gig workers

Before we get to the details of such a product, we must first address the biggest gap in the real-time system: gig economy income generally has no withholding. Given taxpayers are so uncomfortable with estimated tax payments, this sets up many of them to owe money — unless they simultaneously have a W-2 job lucrative enough to cover withholding for both income streams.

The solution is fairly obvious: there should be at least the *option* of withholding in the gig economy.

Conveniently, the basic plumbing for gig economy withholding already exists, as 1099-NEC accommodates withholding; it is just only used at present for backup withholding and various special cases.

Step one is probably a pilot, possibly at the state level, with a few of the larger gig economy companies, to more broadly implement 1099-NEC withholding. Such a pilot should not require statutory authorization. The companies have an incentive to participate even without statute because (1) it would be a fairly inexpensive way to improve workers' satisfaction, not to mention a P.R. win, and (2) the companies would get to play a major role in implementing and designing a reporting system that might eventually become mandated, and they could engineer a solution that works well for them rather than later be subjected to a more burdensome process that doesn't take their needs into account.

Eventually, scaling this process to more gig economy businesses may require statute. It probably won't be possible to enforce or implement in every case, given the range of 1099 employers, but it could reach a large majority of gig economy workers. If the withholding were mandated via statute, the mandate may depend on the size of the employer.

At least in the early stages, the withholding should be opt-in rather than opt-out for payees, allowing taxpayers to decide what works best for them. Assuming the initial implementation works well, the long-term goal should be to make such withholding mandatory, for at least the vast majority of cases.

11.3.2 A real-time taxes product — and connections to existing infrastructure

As outlined above, our user research makes clear there is **taxpayer interest in a tax agency product that allows taxpayers to see what they are earning and paying throughout the year, and whether they are on track to have paid the right amount into the system**. It would facilitate adjusting withholding or estimated payments if taxpayers are on the wrong track. This section discusses the broad outlines of the product; the details of its data sources and the actionable recommendations it could present to taxpayers are discussed in the following sections.

Some key aspects of the product:

- Eventually, **such functionality would need to exist at both the federal and state level**, since withholding and estimated payments are made separately at each level. That said, much of the basic infrastructure for such a product would be common to both levels, and as in the case of Direct File, there is a **strong case for having state versions somehow integrate with a central federal version**.

- Federally, **the product would be connected to — and perhaps the central component of — the IRS online account.** Integration with the online account would allow the real-time functionality to use information already saved within the taxpayer’s account. And it would be sensible for taxpayers to find this functionality in the same place as functionality for other non-tax-time account management or updates.
- It could in principle be plausible for the IRS to liaise directly with employers to update withholding. But we heard clearly from taxpayers that they don’t want such updates made silently or automatically; they want to be involved. As such, **employers do not need to be directly involved with any such functionality.**
- Relatedly, **taxpayers should make the final call on any changes.** The IRS should not be making silent updates based on background data. Taxpayers need to be aware and participate in changes — at least in the early years as the IRS builds up trust.
- **All functionality in the product, especially any notifications recommending changes, must be carefully phrased not to project overconfidence.** We heard that taxpayers will feel wary contradicting an IRS suggestion, even if it is just a suggestion. The functionality needs to thoroughly communicate the level of certainty inherent in any information provided.
- **The functionality should, wherever possible, “show its work,”** explaining the sources and nature of any calculations to better inspire confidence and help taxpayers understand their situations.
- **Taxpayers would be recruited to take up use of the product through the filing process.** This is an easier proposition in a world with Direct File — but there are other ways. Taxpayers could receive messages about the new product when their refund is posted, using the mechanisms discussed in [Chapter 10: IRS communications](#). These messages could also be customized according to the types of benefits the particular taxpayer might see, based on their tax situation. Software providers could provide prominent links to and information about the product in their products — either voluntarily because it is a useful service to taxpayers, or as a requirement documented in [Publication 1345](#) and state Letters of Intent. Such communications would help taxpayers ensure they are fixing their withholding and payments for the current year while they are filing for the prior year.

11.3.3 Real-time taxes functionality using status quo data

Remember that, under the status quo, tax departments have no access to real-time data about withholding or earnings throughout the year.

As such, the simplest status quo version of the functionality would be based on prior year data, plus any estimated tax payments made to date. Upon logging in, the functionality would tell you that, if your current year ultimately looks like last year, you should make a given quarterly payment.¹¹¹ There could also be functions for editing basic parameters and

¹¹¹ Today, some commercial software encourages taxpayers to make such payments, following this logic.

yielding new quarterly payment amounts. For example, the product might show calculations in terms of (a) expected total income, (b) expected total withholding, (c) expected filing status and household composition (with attendant estimates for EITC and CTC) — but then allow the user to edit each of these and see accordingly updated estimates. In a world with updated dependency rules (see [Chapter 12](#)), the functionality might also help taxpayers to remember who is claiming a given child this year, and proactively amend withholding information accordingly.

The IRS could also set up pilot programs to import year-round data from certain large gig economy employers or large payroll processors, on a pilot basis, to begin exploring expanded functionality.

There are two key calls to action in the product: either to make an estimated payment, or to adjust withholding (for W-2 income; or, in a world with gig economy holding, for gig economy income). In the simplest version of the product, the withholding adjustment would generate a new W-4, which would be submitted to the taxpayer's employer.¹¹²

11.3.4 Getting better data — and connection to H.R. 1 implementation

Regarding W-2 income, tax agencies need to receive withholding and earnings data, *by person*, more frequently throughout the year. More precisely, this implies a few changes:

- When payroll processors make quarterly aggregate withholding payments on Form 941, they would also report *by person* the withholding *and income* that correspond to each individual taxpayer.
- The payroll processors should make these reports (and, possibly, payments) biweekly or even weekly, rather than quarterly.

This second change is less critical for this particular use case — tax agencies could still make a lot of progress with quarterly data. Moreover, payroll processors might object to the second change, because they earn interest on the withholding until the end of the quarter (though that opposition could be muted by changing the reporting cadence and keeping the payment cadence). As such, the first change would be the priority.

Regarding 1099 gig economy income, tax agencies need some measure of advance reporting: income (and, if applicable, per Section 11.3.1, withholding) on an individual level, at least quarterly, if not per payout. As with the idea of requiring 1099 withholding, as discussed in Section 11.3.1, this reporting won't be possible in every case; there are too many small gig economy employers and sometimes money really does arrive highly inconsistently throughout the year. But, again, enrolling even the large gig economy employers in an advance reporting system would be a big deal. And again, the requirement could be based on the size of the employer.

¹¹² In the longer term, a more sophisticated version of this functionality might run via a real-time-taxes API, that employers query while running payroll for the latest updates from their employees.

“Given the near-term realities of H.R. 1, this entire topic of real-time income and withholding reporting is a good candidate for exploring at the state level before scaling any solutions federally, particularly in states where individual-level withholding data is already reported quarterly.”

In principle, tax agencies should be getting these advance reports for other 1099s as well, including interest income (1099-INT), unemployment income (1099-G), Social Security (SSA-1099), etc. In practice, agencies can probably get much of the way there without these additional reports; taxpayers with large amounts of interest, for example, are probably higher-income taxpayers with complex situations, who may well already be hiring accountants to help them manage payments throughout the year. Agencies can at least get started without this additional 1099 reporting, though they should keep it on the road map for the longer term.

Getting better data pipelines connected at a huge scale is often a prohibitively difficult proposition. But right now, in 2026, there is a possible angle for tax agencies: the implementation of H.R. 1. Employers may have a stake in building seamless income reporting processes so they don’t have to handle confirming employees’ income ad hoc, as state agencies enforce Medicaid work requirements.

Given the near-term realities of H.R. 1, **this entire topic of real-time income and withholding reporting is a good candidate for exploring at the state level before scaling any solutions federally, particularly in states where individual-level withholding data is already reported quarterly.**

Another option to enforce the construction of these better reporting pipelines would of course be via statute: Congress could mandate W-2 income and withholding reported to the IRS quarterly or more, and mandate something analogous for at least the largest gig economy workers. We are hopeful, though, that much of this could be done administratively.

11.3.5 Second-generation real-time taxes functionality

With the expanded data discussed in Section 11.3.4, the functionality of the real-time tax product can become much more robust. **Rather than using prior-year earnings and withholding as loose estimates for current-year earnings and withholding, the product can use the current-year data, and detect with considerable precision whether a taxpayer is on track.** Of course, some reliance on the prior-year data is still valuable. Prior-year income data could help the IRS predict, for example, if there is likely an additional income source that is not currently reporting in real time.

Changes in family structure would continue to be the major data point that relies on taxpayers' own data entry. Because the IRS does not and still will not directly detect family structure changes, it would still be on taxpayers to make these edits themselves. The real-time functionality would need to be very forthright about this need — much as it needs to communicate, in general, that these are just estimates based on current information, and could be incorrect.

With better reporting, tax agencies should also send proactive alerts to taxpayers when they detect that taxpayers are likely off-base with their payments — not only inviting them to use the product to check their status, but letting them know it is likely they need to make a change.

11.3.6 Advance payments of tax credits

Based on the structural issues discussed in Section 11.1.3 and the user research discussed in Section 11.2.5, we recommend that lawmakers and advocates be thoughtful about reintroducing advance payments of refundable tax credits.

- **Implementing advance payments requires solving a variety of challenging administrative issues in a high-stakes time-pressing context.** Because monthly or quarterly payments would likely need to change in response to real-time family (and, depending on policy details, income) changes in taxpayers' lives, accuracy would require quick and easy access to online tools that permit updating real-time tax information, and quick and easy resolutions to conflicting dependent claims — all in a world where even the less time-sensitive retrospective versions of these issues are not entirely solved. It also, as discussed in Section 11.1.3, requires taxpayers who receive the credits non-refundably to amend their withholding to ensure they don't find themselves suddenly owing — an easier problem than the issue of unexpected family changes, but still one that requires taxpayers to have a clear real-time picture of their taxes that they currently do not have. It involves, in other words, conquering some of the thorniest real-time taxes issues.
- Advocates and policymakers may not like the fact that taxpayers' fear of owing money to the IRS is so substantial. **But that fear currently exists, and we believe they have to take it seriously.** Policymakers should be attempting to build trust and reduce anxiety. A program that creates unexpected tax liability for even a small population of taxpayers could do damage in this regard.
- Finally, to the degree that one of the goals of advance payments is the visibility of the program, and thereby of the support provided by tax credits, **policymakers should consider that this visibility might be achieved via other means** — for example, through a transparent and well-messaged year-round taxes product, or a filing product.

If policymakers continue with an advance payments program, we recommend they take seriously the learning that taxpayers want to be in control of their destiny on such topics. Advance payments should in most cases be an option that taxpayers proactively elect on

their W-4 or on their prior-year return, so that they know what's coming and can plan around it. A product like the one discussed in the previous sections would also go a long way toward facilitating the transparency, understanding, and control taxpayers want.

11.3.7 A glide path to pay-as-you-earn (PAYE)

Many advocates in the tax space are interested less in piecemeal reforms like the ones discussed here than in a wholesale pay-as-you-earn (PAYE) tax system, like, for example, the one in the U.K.¹¹³ Our view is that, taken together, implementing the various reforms in this chapter constitutes the first several steps towards PAYE.

The Direct File experience offers a useful analogy. Many advocates were interested not in a “public TurboTax” but in a “return-free filing” system, in which tax returns became a thing of the past. But Direct File was showing that we have to go through the first to get to the second. The piecemeal reforms of Direct File and of a highly-manual real-time product, respectively, are the first steps toward return-free filing and toward PAYE. Given the current infrastructure, the current levels of trust in the IRS, and the complexity of the U.S. tax code, jumping to a further point in the development would likely only backfire for taxpayers and for tax administration.

¹¹³ PAYE is also sometimes referred to as pay-as-you-go, or PAYG. PAYE should not be confused with the student loan repayment plan of the same name.

12. Dependents

Gabriel Zucker, Chris Given¹¹⁴

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¹¹⁴ This chapter is significantly informed by user research led by Allison Abbott.

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Summary

- Current law and de facto practice about claiming dependents on tax returns are complex and inconsistent. (12.1)
 - Despite harmonization efforts, tax benefits have different legal definitions of a child (12.1.1). In practice, in most cases of conflicting dependent claims, the de facto resolution process is “first come, first served” (12.1.3).
 - The IRS audits taxpayers and calculates aggregate statistics of dependent claiming on the basis of methods that do not match the de facto filing administration practices. (12.1.4, 12.1.5)
 - Contrary to these rules, taxpayers tend to claim children on the basis of informal agreements within their families or court-ordered formal agreements like custody agreements — arrangements most taxpayers do not know are technically unlawful. (12.1.6)
- The current system creates a number of serious problems. (12.2)
 - Due to the shape of the law and the vagaries of its implementation, some children cannot be claimed by any filer for one or more tax benefits, in apparent contradiction of the policy intent. (12.2.1)
 - Many children are claimed by, technically speaking, the wrong family member; we call these intra-family misclaims. These intra-family misclaims are generally benign mistakes in policy terms, but they create the appearance of tens of billions of dollars of improper payments in the EITC — which have driven policymakers to implement access-restricting measures in the name of reducing fraud. They also may vastly inflate statistics measuring the EITC participation gap, causing policymakers and third-party stakeholders to go looking in the wrong place for Americans missing out on their tax benefits. (12.2.2)

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- The de facto adjudication rules can make it difficult for the family to claim a child, in case of conflict (12.2.3). Meanwhile, the sheer complexity of the system also creates administrative burden (12.2.4) and feeds the damaging widespread impression that the tax system cannot be navigated by everyday people (12.2.5).
- Taxpayers' intuitions about the child-claiming rules — explored in a series of user research sessions — differ significantly from the current rules, and point toward a new paradigm. (12.3)
 - In a series of scenarios where we asked taxpayers which of multiple adults should claim a child, only 21% of votes actually matched current law. (12.3.2.1)
 - There was widespread disagreement about who should claim, and many taxpayers could not articulate a consistent principle that would identify the right claimant in every case. (12.3.2.2)
 - Taxpayers generally believe that, within reason, families should be able to decide among themselves who claims a given child (12.3.3.1). Some of these intra-family choices are consistent with behavior some policymakers would consider “gaming” — but taxpayers did not tend to see such behavior as inappropriate or immoral (12.3.3.2). Taxpayers tend to believe legal agreements like divorce decrees or custody agreements should be the first line of defense in determining who claims a child, and tend to see these kinds of agreements as a special case of the family working it out among themselves (12.3.3.3).
 - In the case that there is a conflict between family members, though, taxpayers expect there to be clear and objective rules to resolve the conflict (12.3.3.4).
 - When thinking through who truly ought to claim a given child, most taxpayers had an intuition of applying some type of relationship test and some type of support test to determine claims. There was disagreement, though, about how those tests would be defined. (12.3.4.1, 12.3.4.2)
 - Taxpayers did not voice any support for the idea that children might be classified differently for different benefits, or any understanding that such splitting is part of current law. (12.3.4.3)
- Recommendations:
 - All tax programs should use a common dependency definition, under which one child is only ever claimed by one tax unit. One tax unit should claim one child, with that child consistently eligible or ineligible for all relevant programs to the greatest extent possible. (12.4.1)
 - Rather than prescriptively identify the one tax unit who is definitively able to claim a given child, the law should define a permissive set of claimants, any of whom may validly claim the child. Within this set of claimants, families are encouraged to decide for themselves who claims the child. As long as only one of the valid claimants claims the child, the government does not need to

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- second-guess which one it is. We provide a few possibilities of how this permissive class may be defined. (12.4.2)
- In cases that multiple valid claimants do claim the child, there should be a detailed set of tiebreaker rules that the government will use to adjudicate between the rival claims. These rules only come into play if there are multiple claims actually made. The tiebreakers should be based on the taxpayer intuitions laid out in earlier sections. (12.4.3)
 - This new paradigm raises implementation challenges, since not all claims come in at the same time. Equitable administration may require some child claims to be held provisionally until the government is confident there is not a rival claim. (12.4.4)
 - The IRS needs a quick and human-centered resolution process to adjudicate rival claims, one which does *not* require snail mail for administration. (12.4.5)
 - The new regime does increase the capacity for unsympathetic “gaming” — that is, deliberate manipulation for tax advantage — in child claims. Policymakers may reduce the incentive to game by removing quirks in existing tax law, such as the three-child limit for EITC. They may also consider granting IRS statutory authority to prevent specific cases of unsympathetic gaming — specifically those that entail high-income parents shifting child claims to lower-income family members. (12.4.7)
 - While many of these recommendations may seem challenging to implement, we encourage policymakers to consider the myriad untenable contradictions in the status quo, including widespread legal instruments that violate the terms of the tax law; widespread audits, enforcement actions, and alleged overpayments based on benign intra-family misclaims; and the simple fact that, more than 20 years after the establishment of the current policy regime, we are as far as ever from everyday taxpayers actually knowing, understanding, and following the letter of the law.

For all the complexity in the U.S. tax code, it is the thicket surrounding claiming children that may wreak the most unnecessary havoc for tax administration and access. (Throughout this chapter, we discuss the process of claiming *dependents*, who are usually but not always children; for simplicity, we will usually refer to children as a stand-in for the broader point.)

Despite meaningful attempts at reform, the current law governing which adults can claim which children are complex and disjointed; often, taxpayers can claim children for some tax benefits but not others. Meanwhile, taxpayers’ intuitions about and understanding of the rules have drifted far from the letter of the law, as have the de facto administration practices of the IRS. Predictably, this situation yields administrative burden, bureaucratic costs, and unintentionally unclaimed children.

All this misalignment also produces enormous downstream issues. For years, the EITC has been plagued by its 25-40% overpayment rate, attracting myriad onerous policies that

restrict tax access in an effort to reduce waste and abuse. Meanwhile, the EITC has been plagued too by its stubbornly persistent 20% non-participation rate, with funders, advocates, and organizations of all sizes constantly supporting new programs intended to get the EITC to the one in five eligible families who allegedly don't claim it.

We argue in this chapter that large portions of the EITC overpayment and underclaim populations may be functionally data artifacts borne of the mismatch between the child-claiming rules and taxpayers' perceptions of them, rather than widespread failures to claim or any malicious intent on the part of the taxpayer. If we rewrote the rules to match taxpayers' understanding of them, underclaims and overpayments would likely fall precipitously. And this correction would allow the tax administration space to focus precisely on that much smaller and more manageable population that truly is overclaiming, or missing out. The current rules introduce massive distortions into the tax system, badly hampering real progress.

Finally, there is the matter of better synthesis across government programs. Advocates often envision an application system unified across taxes and benefits. But a baseline prerequisite for such integration is a unified definition of family across domains, and a prerequisite for that is a unified definition within the tax system itself. Those who dream of better unification across government programs should start with the broken definition of family within the tax code.

Section 12.1 reviews the status quo — the law governing child claims, and its de facto implementation and enforcement. Section 12.2 reviews the problems caused by the status quo, including the inflation of under- and over-payments discussed above. Section 12.3 reviews our user research findings on the dependent rules — what taxpayers think would be a fair system. Section 12.4 makes recommendations.

Note that most of this work — and especially the user research — is focused exclusively on tests that determine which of several households might claim a given child (“whose child is this”), not questions like age¹¹⁵ or self-support¹¹⁶ that might determine whether a given child ought to be claimed at all (“is this person someone's child”) — though we do address those questions in passing.

12.1 Background: the status quo

12.1.1 Current law

On tax day in 2002, Treasury Secretary Paul O'Neil unveiled his department's [proposal](#) for a simplification of the rules for claiming a child. The department's proposed “uniform

¹¹⁵ Generally speaking, qualifying children must be under 19; or under 24 and full-time students; or any age and totally disabled. For CTC, children must be under 17. We did not examine these boundaries.

¹¹⁶ Dependents cannot have provided more than half of their own support. We did not examine this boundary.

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definition of a qualifying child” attempted to make consistent the rules for five tax provisions related to children: the dependency exemption, Head of Household (HoH) filing status, CTC, EITC, and the Child and Dependent Care Credit (CDCTC). [He said](#), “The tax code should not scare law-abiding and hard-working citizens when they sign their tax return. Our tax code is still an abomination. It is not worthy of our free society. By beginning to undo unnecessary complexities, we can take the first steps to a better, simpler tax code. We need to start now.”

To illustrate the value of this task, Treasury outlined the tax situation of a multigenerational household in which a child’s mother, aunt, and grandmother are each entitled to claim only some of the benefits for the child under then current law; in the example, the CDCTC fell through the cracks, with no one in the household eligible to claim it. Treasury touted, “Under the proposal, the child's mother (or if the family prefers, the grandmother or aunt) could claim all [five] tax benefits.”

Yet by the time the proposal was enacted in the Working Families Tax Relief Act of 2004, the tax treatment of Treasury’s example family was once again fractured, now with family members only able to claim certain benefits to the exclusion of different benefits that other members might claim. Although it was indeed a significant improvement in complexity and burden, the resulting statute did not realize Secretary O’Neil’s vision. Over time, more inconsistencies were added, pulling the definitions ever farther from “uniform.”

The table below is our attempt to summarize just *some* of the current law.

		Section 152 Qualifying Child (QC)	Section 152 Qualifying Relative (QR)	EITC Qualifying Child	CTC Qualifying Child	Credit for Other Dependents	HoH Qualifying Person	CDCTC Qualifying Person
Relevant to conflicting claims	Relationship	Descendent, younger sibling, or descendent of sibling/ descendent; includes fosters and adoptees	QC rules plus parents, grandparents, uncles, aunts, and year-round co-resident non-relatives	QC rules	QC rules	QC or QR rules	QC or QR rules (except <i>not</i> co-resident non-relatives)	QC rules, <i>OR</i> Disabled spouse <i>OR</i> Disabled QR
	Residency	> 6 months living with claimant	– 12 months if co-resident non-relative – Others, no requirement	QC rules, in U.S.	QC rules, in U.S., Canada, or Mexico	QC or QR rules	– No req, if parent – >6 months for all other	– QC rules, if QC – > 6 months, if spouse or QR
	Res. waived by 8332	N/A	N/A	No	Yes	Yes	No	No
	Costs paid	No requirement	Must provide half of all support for the QR; <i>OR</i> multiple support agreement	QC rules	QC rules	QC or QR rules	QC or QR rules <i>AND</i> must provide half of <i>household</i> expenses	QC or QR rules, <i>AND</i> paid child care, with certain additional restrictions

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Not relevant to conflicting claims	Age	Under 19 <i>OR</i> under 24 and full-time student <i>OR</i> any age and totally disabled	No requirement	QC rules	Under 17	QC or QR rules	QC or QR rules	— If QC, under 13 (when incurring expenses; not full-year age) — Others, no requirement
	SSN	No req.	No req.	Child (and whole household) needs SSN valid for employment	Child (and at least one parent) needs SSN valid for employment	No req.	No req.	No req.
	Would- be dep's finances	QC must <i>not</i> provide for more than one half of their living costs	QR must earn under \$5,050	No req.	QC rules	QC or QR rules	QC or QR rules	— If QC, QC rules — Others, no rules (income test waived for QRs)

A few especially critical observations:

- In almost every case there is, at most, one valid claimant for any child for a given benefit. In the rare case where more than one adult passes the original basic rules, there are binding tiebreaker rules (not shown above) that end with only one valid claimant. (This may seem obvious, but we will see later it conflicts with taxpayers' intuitions.)
- But there is no guarantee that there is anyone who can claim a child. Some children have zero valid claimants.
- A relatively wide range of biologically-related (or legally-related, e.g., via adoption or foster care) taxpayers can claim a child, though there are limits. But there is almost no allowance for taxpayers without a biological or legal relationship to claim a child for EITC or CTC. Mom's boyfriend whom she hasn't married (and who isn't the child's father) can't claim the child. A non-family household who informally (without adoption proceedings) takes in a child can't claim them. This relationship test is the first principal determinant of who can make a claim.
- For many provisions, the claimant must live with the child for at least six months; this is the second principal determinant of who can make a claim.
 - There is an exception, though: parents with greater than six months' co-residency ("custodial parents") can cede their claiming right to parents without ("non-custodial parents") if they file [Form 8332](#) explicitly ceding their claim.
 - But there is an exception to the exception: Form 8332 cedes these taxpayers' claims for CTC and ODC, but not for EITC, CDCTC, or HoH QP. A custodial parent may file Form 8332, intending to let their non-custodial parent claim their mutual child for all the key tax benefits. Despite the 8332, however, the non-custodial parent still can't claim the child for EITC, CDCTC, or HoH QP.

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- Meanwhile, if three taxpayers each live with a child for four months, none of them can legally claim the child (for EITC, CTC, CDCTC, or HoH QP; though they likely *can* be claimed for the Credit for Other Dependents).
- For EITC and CTC, there is no explicit requirement that the claimant pay for the child's living expenses; to the degree such a requirement is present, it is implied in the co-residency rule. (The residency test was adopted in lieu of a more explicit support test due to its perceived easier administrability.)
 - There *is* a 'support test' that applies to qualifying children under CTC, HoH QP, and CDCTC: the child cannot provide for more than half of their own living expenses.
 - But this test does *not* apply to the EITC. A financially nearly-independent child who lives with their parents can be claimed for the EITC — but not CTC, HoH, or CDCTC.
- All these discrepancies between programs cause knock-on effects one generation up. It stands to reason that a taxpayer cannot claim a child for CTC if they, themselves, are being claimed for CTC by a parent — and similarly for EITC. But, because CTC and EITC have different rules, taxpayers must determine both if they are able to be claimed as a dependent for CTC and, separately, if they are able to be claimed as a qualifying child for EITC.
- There are also a constellation of conflicting rules regarding the child's age, immigration status, and more.

But the complexity does not stop there: as noted, in some cases, two different taxpayers may both pass the tests to claim a given child. (Consider, for example, a multi-generational household in which the child's parents and grandparents cohabit and file separately.) For these cases, there are a series of tiebreaker rules, applied in order:

- Parents are entitled to claim over non-parents (unless the parent agrees to cede the claim, and the non-parent has higher income). If this does not resolve the tie,
- The person with more time lived with the child claims the child. If this does not resolve the tie,
- The person with the higher adjusted gross income claims the child.

12.1.2 Tax software implementation

Most taxpayers are oblivious to much of this complexity, as they rely on preparers or tax software to file. Most tax software, mercifully, does not expect taxpayers to understand these various and highly complex rules. Instead, software generally asks taxpayers a series of questions about each potential dependent, and determines automatically which tax benefits they qualify for, if any.

Needless to say, the software must probe a dizzying array of topics. Below, for example, are just a few of the questions Direct File asked about a potential dependent. In Direct File's [all-screens view](#), there are 81 separate screens a taxpayer may see for each would-be

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dependent they enter (though it's highly unlikely a taxpayer could see even the majority, and the average taxpayer likely saw more like 8-12).

The image displays six screenshots of a tax software interface, arranged in two rows of three. Each screenshot shows a different step in the process of adding a dependent, with various form fields and radio button options.

- add-person-basic-info**: A form titled "Tell us about this person" with fields for First name, Middle initial, Last name, Suffix, and Date of birth (Month, Day, Year). It includes a checkbox for "check this box if this person died in 2024" and a "Continue" button.
- add-person-relationship-category**: A screen asking "How is {{familyAndHousehold/*/*/firstName}} related to you?" with radio button options for Biological child, Sibling, Parent, Child's spouse, and We're not related. It includes a "Continue" button.
- add-person-relationship-type-child**: A screen asking "Choose the option that best describes your relationship to {{familyAndHousehold/*/*/firstName}}." with radio button options for Biological child, Adopted child, Stepchild, Foster child, and Grandchild. It includes a "Continue" button.
- add-person-relationship-type-sibling**: A screen asking "Choose the option that best describes your relationship to {{familyAndHousehold/*/*/firstName}}." with radio button options for Sibling, Sibling's child, Other descendant of sibling, Half sibling, Half sibling's child, Other descendant of half sibling, Stepsibling, Stepsibling's child, and Other descendant of stepsibling. It includes a "Continue" button.
- add-person-relationship-type-parent**: A screen asking "Choose the option that best describes your relationship to {{familyAndHousehold/*/*/firstName}}." with radio button options for Parent, Stepparent, Foster parent, Grandparent, Other direct ancestor of parent, and Sibling of parent. It includes a "Continue" button.
- add-person-relationship-type-in-law**: A screen asking "Choose the option that best describes your relationship to {{familyAndHousehold/*/*/firstName}}." with radio button options for Child's spouse, My spouse's parent, My spouse's sibling, and My sibling's spouse. It includes a "Continue" button.

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Sometimes, given the rules, the answers result in a child being eligible for some benefits and not others. Below, again, is Direct File's determination for a child with mixed eligibility. (The bulleted items would conditionally hide or show depending on the taxpayer's situation).

You can use `{{/familyAndHousehold/*/firstName}}` **as your qualifying person for tax benefits.**

You can't claim `{{/familyAndHousehold/*/firstName}}` as your dependent this year, but you can use them as your qualifying person for these tax benefits:

- Head of Household filing status
- Qualifying Surviving Spouse filing status
- Child and Dependent Care Credit
- Earned Income Tax Credit

You may also be able to use them as your qualifying person for these tax benefits:

- Head of Household filing status
- Qualifying Surviving Spouse filing status
- Child and Dependent Care Credit
- Child Tax Credit and Additional Child Tax Credit
- Credit for Other Dependents
- Earned Income Tax Credit

[Continue >](#)

But there is an important aspect of the current law that is usually not fully implemented in tax software: Form 8332, via which custodial parents can cede (some) claims to the non-custodial parent. The process form Form 8332 appears to be as follows:

- The custodial parent fills out a paper Form 8332, and gives it to the non-custodial parent. (Tax software generally does not appear to directly help parents with this part of the process.)
- The non-custodial parent e-files their return. Presumably, they claim the children despite answering no to the residency questions by indicating they have a Form 8332 from the custodial parent. Then they actually have to submit to the IRS the Form 8332 that the other parent provided. They can either do this by scanning it and attaching it to their e-file submission (if their software allows), or by mailing the paper Form 8332 to the IRS under cover of a Form 8453. (The [Form 8332 instructions](#) only clearly outline this latter option.) If they choose the latter route, the non-custodial parent allegedly has three business days after e-filing to submit the 8332 and 8453. (It is not clear what happens if they submit late.)
- Form 8332 can cede a claim for one year, or in perpetuity. If the claim was ceded in perpetuity, and the custodial parent wants to revoke the ceded claim, they must file Form 8332 directly with the IRS revoking the claim, *and* give a copy of this revocation to the non-custodial parent.

It is little wonder that some software has limited support for the 8332 process. There is no public data on the number of Forms 8332 that are filed, but it appears to be a relatively small number. While custodial parents do frequently *intend* to cede claims to non-custodial parents (see Section 12.1.6), they often do not actually use the existing Form 8332 to do so.

12.1.3 Modernized e-File and de facto adjudication

The actual current statute about child claiming is very complex, and most tax software implements (most of) that logic faithfully and in detail. When claims reach the IRS, though, the *de facto* rules are very different, and much simpler: the claimer who files first is usually allowed to claim the child. (This is essentially in keeping with the IRS's overall voluntary compliance posture, which generally accepts taxpayer's self-reported data at face value unless there is explicit reason to investigate it further.)

When a taxpayer e-files a return, the Modernized e-File (MeF) system runs a series of checks to confirm the validity of a return — including whether the dependents or EITC qualifying children on the return have been claimed on another e-filed return this year. If not (and other checks pass), the return will be accepted. Returns can be flagged for additional review or audit in the post-acceptance stage, but such returns are not especially likely to be flagged solely on account of their dependent claims, which as of yet are not suspicious.

Now, suppose another family member e-files a return the following week, claiming the same dependent or qualifying child. MeF will check their return, find the conflicting claim, and reject the return. Generally speaking, the taxpayer *cannot e-file their return* with this conflicting claim. ([Beginning in 2025](#), taxpayers can e-file this conflicting claim if and only if they are enrolled in the Identity Protection PIN program. According to the IRS, [as of December 2024, only 10 million taxpayers had IP PINs.](#)) Otherwise, if taxpayers want to contest this child claim, they have to print out their return and mail it. This paper filing is a burden in and of itself, and can occasion a protracted and opaque dispute resolution process besides. It's little wonder, then, that most taxpayers choose not to pursue the resolution. Per [Gorman, McGuire, and Splinter \(2025\)](#) about 1% of e-filed dependent claims are rejected due to duplicate claims, but only about 0.3% then go on to be paper filed, formally lodging a dispute for resolution.¹¹⁷

If taxpayers *do* paper file to initiate a dispute, [the IRS tells taxpayers](#) it will *begin* adjudicating the dispute after two months. The process is conducted entirely by paper mail, and then judged according to the details of the tax law. There is not public data on these resolution processes, but anecdotal evidence suggests they can take years. Sometimes, to prevent issues in future tax years, families will find relief outside of the tax system, resorting to measures like seeking injunctions against the improper claimant.

¹¹⁷ Some of the taxpayers dissuaded from filing probably reflect the system working — e.g., a divorced parent who forgot she was not planning to claim the kids this year. But some surely are dissuaded by the de facto “first come first serve” logic.

12.1.4 Audits

For the 99.7% of dependents who are not subject to a disputed claim on a paper-filed return, the IRS generally accepts the dependency claim at face value. But if a return is selected for audit, which is disproportionately common for EITC claims in particular, the IRS will seek substantiation of the child according to the letter of the tax law. The IRS, in other words, asks audited taxpayers for evidence of co-residency and relationship to substantiate their child claims.

Of course, this audit proceeding exists on an entirely independent path from the MeF processing. Suppose mom is the custodial parent, but dad claims the kids for EITC on March 1. On March 5, mom tries to claim the kids, but her return is rejected; discouraged, she removes the kids and files as single, and dad gets the credit payments. Much later, dad is audited and has his refund disallowed. Mom, regardless, does not get the money.

12.1.5 Research and aggregate statistics

The IRS publishes aggregate estimates of EITC overpayments and underpayments, which are often due to improperly claiming or failing to claim a child. These estimates appear to come from two different methodologies, which only partially match any of the parts of the process above.

The overpayment rate is extrapolated from the audit program — specifically from audits of randomly-selected (and thus representative) returns, and so is based on cases where an audited taxpayer cannot substantiate their child claim according to the claiming rules. However, in the audit program, nonresponse is classified as noncompliance. Many of these audits are correspondence audits administered entirely by mail. So a taxpayer is classified as an overpayment due to an improper child claim if they fail to answer their mail, inflating the overpayment rate.

The underpayment rate, on the other hand, bears no relationship to any of the data discussed above. Instead, the IRS and the Census Bureau link a sample of tax returns to Census survey observations. They use the Census observations to identify tax units that *should* claim a given child (or, more precisely, a tax benefit that requires a child), and classify as underclaims those cases where these observations cannot be matched to a return with that child/provision. If Census data imprecisely captures the family relationships of respondents, the underpayment rate will likely be inflated (net of adjustments to the Census models; see Section 12.2.2.2).

12.1.6 How taxpayers currently claim dependents

Our user research sought to interrogate how taxpayers currently approach the question of how to claim dependents.

The participants we spoke to with ambiguous claiming situations were nearly all divorced/separated. Nearly all of them determined whether to claim their children not by

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examining the esoterica of 26 USC 152, IRS publications, or software explainers, but according to a divorce agreement or other legal document. Most alternated which parent would claim the children each year, at least for odd-numbered children.¹¹⁸ Notably, all participants believed this approach – adhering to the terms of legal agreements or informal arrangements between family members – was “following the rules.” Almost none (with one exception, below) seemed to be aware that tax law could supersede their agreements:

- *“When I was divorced, it depended on what our court order said. Our court order would say even years and odd years, as long as they were current on their child support payments. If he wasn’t current, I got to claim... I think even a court order for custody goes throughout the whole United States.”* — Participant #4
- *“I’m a single mom. So in my divorce agreement, their father and I actually rotate the years in which we can claim the children. So I always have to go back and reread my divorce paperwork to remember if I’m even or odd because I forget. But once I can remember what I’m supposed to be doing, it’s relatively easy from that point on. And we have three kids. So basically, we each claim one kid every year, and then our third child, we rotate back and forth... Once the oldest ages out, we each claim the remaining two year to year. And then when our son ages out, we’ll rotate my daughter... I have clicked on the little help tutorial [in filing software, which] told me, okay, if you claim this child more than X number of days a year, you can claim them on your taxes... However, I know a divorce agreement, a binding legal document might say, okay, we’re going to still rotate the kids. So [a divorced parent] might want to look at their legal documentation, because I think that would probably overrule.”* — Participant #1

(This misperception about divorce decrees overruling dependent law is not limited to the relatively uninformed. While working on this paper, one of us presented at a conference precisely about the question of defining family for legal purposes, where a law professor moderating a panel told the assembled crowd about how she had ensured her divorce paperwork gave her uncontested right to claim her children.)

Even those who didn’t have formal paperwork stipulating a yearly trade-off knew about this approach or even had done it:

- *“So, you know, in the beginning, it was like a rough patch because we were kind of going back and forth. And now we’re able to co-parent, and so we’re able to come to an agreement like that where we switch off.”* — Participant #3, who is divorced, with three kids, and trades off claiming all three of them with his ex. They don’t split time 50-50; he spends more of the money and his ex spends more of the time.
- *“We used to rotate... I know some parents rotate every year, like my best friend rotates with her... former significant other, they rotate every year.”* — Participant #9

Another participant claimed her de facto child on the basis not of a divorce decree, but a legal document from DCFS:

¹¹⁸ That is, if separated parents had three children, often Parent A would claim Child 1, Parent B would claim Child 2, and they would alternate claiming Child 3.

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- *“Well, she's my granddaughter, but I've had her since birth, so I'm just mom. But legally, she's my granddaughter, and she was formerly a foster child... So that's a little bit complicated... But she's never lived with either parent for any length of time, and neither one of them that I know of have ever filed their taxes. It was determined by the Department of Children and Family Services... And on the guardianship papers, it breaks down the legal guardianship, and so on there, it says that I am able to claim her on my taxes, and I think that just prevents the other two parents from doing it... I haven't run into any situation where they've tried, because she's lived with me her whole life, but if it were to happen, then I do have a piece of paper saying I am legally allowed to claim her.”* — Participant #12

Only one participant we spoke to had even an inkling that such arrangements might not be legal under the current tax law. Participant #8 described the experience of a friend who was trading off claiming children each year with her ex-partner when *“they ended up receiving a letter saying something like, we're flagging your account... It was an agreement between them. This is the way they decided to go about [it], but it did get red flagged by the IRS.”*

Some of these arrangements — ceding claims to non-custodial parents with the consent of both parents — could have been lawful if the parents had filed Form 8332 and had followed that form's dictates in terms of which tax provisions can and cannot be ceded. But notably, none of the participants mentioned ever filing Form 8332, and none seemed aware of any distinction between tax provisions which can and cannot be ceded.

12.2 Problems

12.2.1 Underpayments because no one claims a child

The complexity can create a situation where no one claims a given child, at least for some tax benefits.

One way this can happen is that, in fact, *no one* is eligible to claim a child. There are various examples:

- A child splits their time, four months each, living with three different adults (e.g., a child used to live 50-50 with their mother and their aunt, but in September moved in with their grandparents full-time instead). None of them pass the residency test for CTC/EITC (though one *may* qualify to claim the child as a qualifying relative for other benefits).
- A child lives all year with a de facto adoptive family who takes care of them but is not in fact biologically or legally related. No one passes the relationship test for CTC/EITC (though if the child lives there all 12 months, they might be claimed as a qualifying relative for other benefits).
- A young 19-year-old parent lives with their former foster mother, who technically no longer has a legal relationship with the young parent since they aged out of the foster care system. The young parent is eligible to be claimed by the former foster

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mother, and so cannot claim their baby. But the former foster mother has no biological or legal relationship to the baby they consider their grandchild, and cannot claim the baby either. No one can claim the child for CTC/EITC (though if the baby lived there all 12 months, the de facto foster grandmother can likely claim the baby as a qualifying relative for other benefits).

[Goldin and Jurow Kleiman \(2022\)](#) suggest that the above cases amount to several hundred thousand children.¹¹⁹ [Alice Lin](#) also describes other compelling cases where this problem can occur.

There are also subtler situations in which other individual tax benefits are unclaimable. Consider a single parent and a single grandparent who both live with a child. The grandparent pays most household expenses; meanwhile, the parent works and otherwise qualifies for EITC, and (correctly) claims the child. But, since the parent claims the child as a qualifying child, the grandparent cannot claim the child as a qualifying person for Head of Household status. Both the parent and the grandparent must file as single, with neither able to claim the benefits of HoH filing status, despite being unmarried guardians taking care of a child. This situation may be less egregious than those above; it may not be an injustice that HoH status sometimes goes unclaimed. But the idea that both the adults raising a child must file as single seems counterintuitive.

A child may also fail to be claimed due to the mismatch between taxpayers' intuitions and the actual implementation of tax law in self-prep software. As we explored in Section 12.1.6, some taxpayers intend to claim a child irrespective of the ins and outs of the literal rules and are in fact rather unaware of the details. We believe it is possible that taxpayers are sometimes eligible to claim a child for all the relevant tax benefits, and go through the thicket of software questions intending to do so, but mis-answer one or more esoteric questions along the way, causing them to *not* claim the child for some benefits. The taxpayer does not notice they have made the mistake, as the child *does* indeed show up on the return. Their refund is just smaller than expected, and they never realize they did not in fact fully claim the child.

Both of these situations are relatively rare, but they represent serious problems: we have children who are not being claimed for some or all of the benefits to which they entitle the taxpayer.

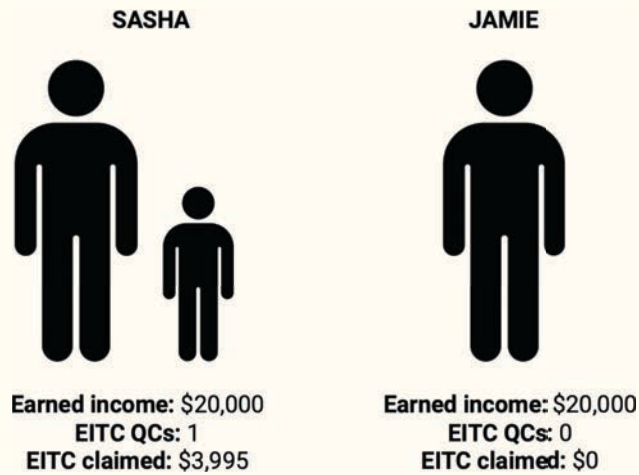
12.2.2 Underpayments and overpayments caused by intra-family misclaims

Consider two separate households, headed by divorced parents Sasha and Jamie, each with income of \$20,000. Their child splits their time between Sasha and Jamie, and they

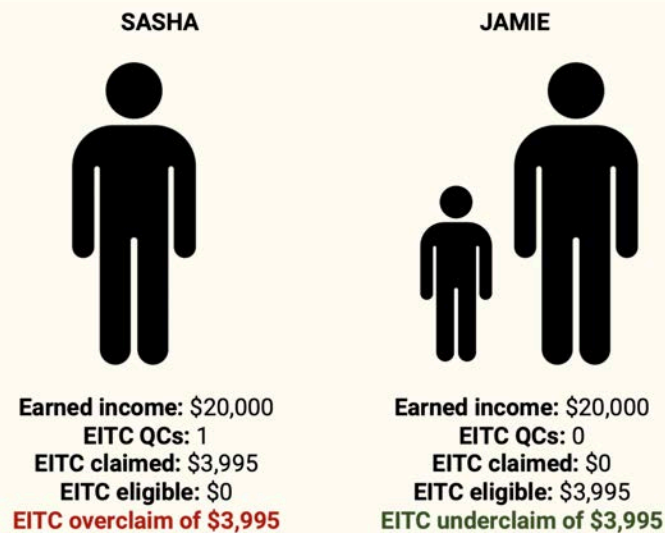
¹¹⁹ The authors also define another category of 1.2-1.5 million children who cannot be claimed for EITC or CTC because of the relationship between the earnings and the relationship tests. We consider these as cases of the 'intra-family misclaim' problem discussed in the next section.

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mutually understand that Sasha will claim the child this year. Given this, Sasha will claim \$3,995 in EITC and Jamie will claim no EITC:



But then the Census-IRS data match concludes (correctly or not) that the child actually spent slightly more time with Jamie; and, meanwhile, Sasha fails to substantiate the residency test in response to an audit. So the government sees the situation as below: Sasha's return is a \$3,995 EITC over-claim, and Jamie *may be* counted among the one in five eligible households who fail to claim EITC (although on the underclaim side, some analyses may correctly account for certain versions of this error — see Section 12.2.2.2).



The data suggest serious problems: Sasha is a fraudster erroneously claiming a child that isn't theirs, and Jamie (in analyses that do not account for the error) is inexplicably leaving thousands of dollars on the table. But instead, in this scenario, both Sasha and Jamie have plausible claims to the child. Sometimes, the IRS's observation is probably simply wrong; Sasha *does* have the best claim, and measurement error or audit non-response causes the erroneous inference that anything was amiss. In other cases, the IRS is nominally right:

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Jamie technically has the proper claim, according to the current rules, but those rules run in the face of the family’s own understanding and intuitions. And the same EITC was paid out in each case, costing the government nothing. (Other scenarios could cost the government money; more below in Section 12.2.2.3.)

We call this scenario an intra-family misclaim, in which intra-family claiming prioritization may not follow the letter of the law, or IRS’s perception thereof, but the credit probably does still reach the child, and Jamie (the only obviously ostensibly aggrieved party) does not perceive anything to be amiss.

Research suggests that, much of the time there is an inappropriate child claim, we are probably indeed looking at intra-family misclaims, not outright fraud or foul play. [Leibel et al \(2020\)](#) find that 87% of children claimed by the “wrong household” for EITC had either a valid family relationship with the improper claimant, lived with the claimant for more than half the year, or both. (Usually, the improper claimant had a valid relationship but could not substantiate six months’ co-residency. The relationship was more likely to be a grandparent or an uncle/aunt than the average dependent claim.) In other words, we very well may be looking at lots of Sasha/Jamies; or cases where, for example, a claimant grandmother financially supports her grandson year round and spends time caring for him every day, even though technically he lives at his mother’s house. Our user research supports the idea that there are vast numbers of intra-family misclaims where all parties involved — except the IRS — see the claim as appropriate.

12.2.2.1 The scale of intra-family misclaims: first-order estimation

What is the statistical impact, in the aggregate, of these intra-family misclaims? At a high level:

- [Leibel \(2014\)](#) estimates that about 3 million households claim about \$10 billion in EITC improper payments by claiming a child that is not theirs, representing about 53% of the total \$19 billion in EITC improper payments.
- Averaging across a range of slightly conflicting studies, the IRS appears to estimate that about 3.5 million households with children fail to claim about \$9 billion in EITC payments that they are eligible for.¹²⁰ This represents about 90% of the \$10 billion in unclaimed EITC (and about half of the roughly 7 million eligible households who fail to claim EITC).¹²¹

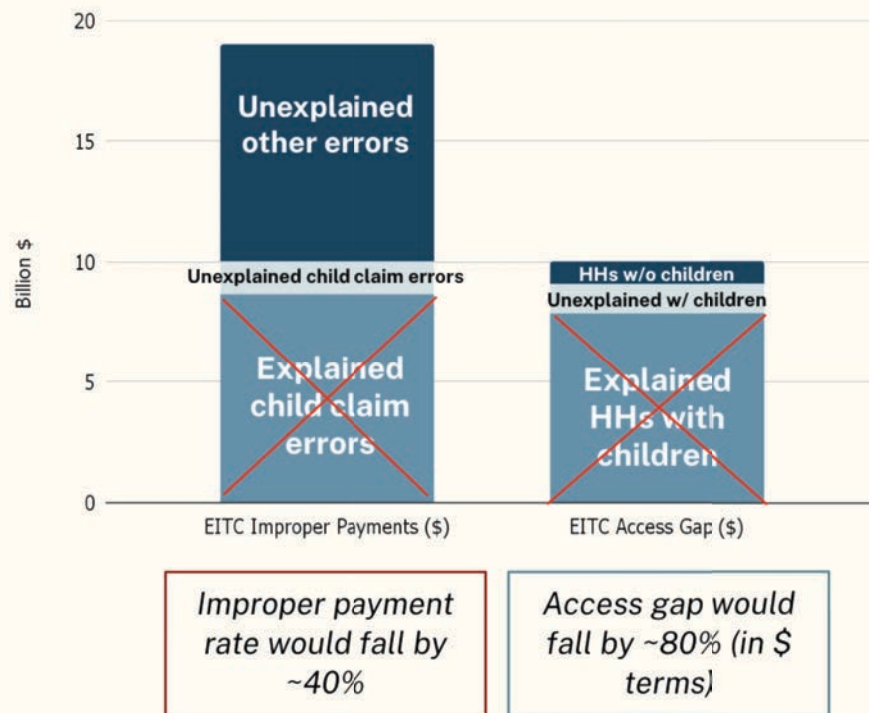
To a first order of approximation, these populations are around the same size. Suppose we assumed — following Leibel’s finding that 87% of ‘wrong household’ claims did pass the relationship or residency tests — that 87% of putatively improper child claims were intra-family misclaims. If we re-defined these misclaims as proper claims, the improper payment rate would fall by 40%, to about \$10 billion, and the EITC access gap (measured by

¹²⁰ See Appendix C of [Zucker and Ramamurti \(2024\)](#).

¹²¹ The remaining gap is much smaller in dollar than in person terms since the remaining non-claimants are predominantly childless adults who receive a much smaller EITC.

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dollars) would fall by 80%, to about \$2 billion, overnight.¹²² (Caveats may apply to the underclaim side of this analysis; see Section 12.2.2.2.)



The idea that EITC over- and under-payments are meaningfully driven by intra-family misclaims also jibes with common sense. The fact that there are massive benefits available in the tax code for children is incredibly well-known across the United States. (The fact that childless people might get the EITC, meanwhile, is far less well understood.) While there are certainly some EITC-eligible families with children who fail to claim thousands of dollars, the idea that many millions of them every year strains credulity. If millions of missing households existed, outreach and engagement efforts would be finding them in droves. And, on the other hand, if millions of children were fraudulently claimed every year by adults with no meaningful connection to the child, there would be millions of annual horror stories about families unexpectedly unable to claim their children. Almost every American personally knows multigenerational families or divorced couples who regularly make technically-improper intra-family misclaims. How many Americans, on the other hand, know families who have been blocked from claiming their children by wholly fraudulent actors?

12.2.2.2 Technical issues regarding underclaim statistics

We noted above that, in some cases, the underclaim statistics may correctly account for intrafamily misclaims. That is, some estimates may in fact *not* count Jamie as being in the

¹²² This assumes that the underclaim households are now eligible for zero EITC. In point of fact, they might be eligible for a smaller, childless EITC, which would leave more of an extant access gap than that shown in the figure. But given how much smaller the childless EITC is, the dollar gap would still shrink considerably.

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participation gap, depending on the details of the misclaim. However, it is not entirely clear which estimates do and do not control for this issue; and there are certain specific scenarios where the issue is almost certainly not accounted for.

The further details in this section are technical and in some cases speculative. Casual readers may satisfy themselves with understanding that: (1) the intra-family misclaim issue *definitely* causes distortions on the overclaim side (that is, on Sasha's return), and (2) the intra-family misclaim issue very likely accounts for at least a portion of the underclaim stats, and *may* indeed account for a large portion — though it may not account for as large a portion as the high-level analysis above would suggest.

In this section, we are talking about the “Jamie” household. Jamie has \$20,000 in income — ineligible for childless EITC, but eligible with a qualifying child. Jamie is technically entitled to claim a child, who is in fact — nominally incorrectly — claimed by Sasha. To model participation gaps, analysts define the household and model its “correct” tax return based on Census data, and then match the household to actual tax data. Households with a credit on their modeled return but not on their actual return are in the gap. But, critically, when the Census-IRS match is made, certain corrections are made to the modeled tax units. A household that was modeled EITC-eligible but filed Married Filing Separately, for example, will be re-modeled as EITC-ineligible.¹²³ So, what about the case in which Jamie is modeled as having a child but their matched tax return does not have a child: will they be re-modeled as not having a child, and have their eligibility recalculated accordingly?

- First, let us consider the case where Jamie does not file a return at all. In this case, since there *is* no match between the modeled household and an empirical tax return, Jamie's modeled household is *not* amended on the basis of an observed tax return. In this case, the participation gap *is* inflated by the intra-family misclaim issue. Jamie is modeled as having a child and being EITC eligible; they (do not file and) do not claim the credit, so they are in the gap.
 - If, perhaps more realistically,¹²⁴ Jamie had lower income, they would still be properly in the EITC gap after reassigning the child to Sasha, because even without a child they would be eligible for childless EITC. But, in this case, the estimated size of the unclaimed credit would be vastly overstated thanks to the incorrect number of children on the modeled return.
- Now let us consider another alternative case, where Jamie and Sasha are in the same household, and both file returns, which are both matched in the Census-IRS research process. In this case, the technical documents cited below appear to suggest the child *is* usually correctly reassigned from Jamie's return to Sasha's, and so Jamie is not in the participation gap.
- This leaves the original situation: Jamie and Sasha live in different households and both file. (This is, we suspect, the most common situation.) In this case, do the

¹²³ Married Filing Separately taxpayers are not eligible for the EITC — a provision designed to prevent gaming in wealthy one-income households.

¹²⁴ Lower-income taxpayers with income below the filing threshold are more likely not to file.

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models update Jamie's modeled household to be childless, in light of the fact that no qualifying children were claimed on the matched and observed return?

- [Plueger \(2009\)](#) — apparently describing the official IRS participation rate methodology at the time — appears to suggest that Jamie's eligibility is *not* adjusted. Pp. 175-176 outline that the modeled eligibility is amended if another adult *in the household* claims the child instead, but does not mention amending eligibility if the other claimant is not in the same household. It notes further that “More analysis is needed to determine whether the unclaimed children in some returns and the unanticipated children in other returns balance out when viewing the national survey results” — again suggesting that the analysts were not ready to assume that these *were* the same children.
- [Jones \(2014\)](#) — again apparently describing the official methodology at the time — again appears to suggest Jamie's eligibility is *not* adjusted, though the language is ambiguous: “The analysis file, therefore, was refined to update and improve EITC eligibility modeling. Part of this process involved substituting in values from 1040, W2, or EITC data when available and appropriate. These included values for earnings, adjusted gross income, and investment returns and dividends; and variables related to household structure, filing status, and claimed children. Married persons filing separately were removed from eligibility to be consistent with EITC rules. **Qualifying children who were modeled as being dependent on one adult, but were claimed by another in the tax data, were reassigned to the claimant.** Finally, using the matched data allowed for checking when a possible eligible was actually claimed on someone else's tax return, which would disqualify him or her from EITC participation” (emphasis added). In context, “in the tax data” appears to describe only those households in the matched sample. But then if Sasha is not in the Census sample, and therefore not in the matched IRS data, the child would not be reassigned. And it is unlikely, given Census sampling, that Jamie and Sasha would both appear in the data, if they indeed live in different households.
- [Coleman et al \(2024\)](#) is the paper cited on the [current IRS EITC participation rate page](#). This methodology is clearer than the other papers', and says that Jamie's eligibility *is* adjusted. Jamie's modeled child is defined as a “surplus child” (relative to the observed return), and in the case of a filer with a surplus child: “The number of qualifying children is reduced to the number of qualifying children claimed on the return. The filer's eligibility and credit amount are reestimated based on the reduced number of qualifying

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children.”¹²⁵ This means Jamie would *not* appear in the participation gap. However, a few points urge caution in accepting this fully at face value:

- If there had been a methodology change between Plueger/Jones and Coleman, there should have been a concomitant increase in the estimated participation rate. But, to our knowledge, there is no evidence of such a change in the average estimates any time in the last 20 years. An 80% participation rate has been the standard estimate throughout this entire period.
- Coleman et al Footnote 10 regards estimates of EITC dollars left on the table by tax units that do claim EITC, but do not claim the full modeled amount, an issue the authors refer to as under-claims. They write: “Under-claiming can occur when the actual EITC amount paid is less than the modeled EITC amount which can come from differing estimates of income **and/or number of qualifying children**” (emphasis added). But according to the written methodology this should not occur: if the provisional modeled number of qualifying children were to exceed the observed number on the return, the modeled number of children would be revised downwards, and would not cause a discrepancy between the modeled and claimed credit amounts. (Of course, perhaps it is the footnote that is in error.)
- Finally, the results in the paper, which is linked directly from the [IRS EITC participation rate page](#), do not perfectly match the figures on the web page. The participation rates for TY19-21 are as shown below. Footnotes on the IRS page suggest that the TY21 discrepancy may be due to using CPS and ACS data in different contexts. But it is surprising that the different data sources would yield not just such different levels but different trend lines. The trend discrepancy calls into question which calculations are in fact being used for which statistics.

	TY2019	TY2020	TY2021
IRS website	79%	76%	81%
Coleman et al (2024)	82%	80%	78%

¹²⁵ Note, though, that the converse is not true: if the family claims more children than are observed on the empirical return (they have “deficit children”), the number of modeled children is not edited upwards to match the tax return. Thus, if the Coleman methodology were used to estimate overclaims, the analysis in 12.2.2.1 would still hold. (In the aggregate, then, the Coleman modeled households contain fewer children than actually exist — which would be an issue if the model were used for anything *other* than the narrow purpose it was built for.) This point is relatively immaterial since, per 12.1.5, national estimates of overclaims come not from this Census-IRS research program, but from the audit program.

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- A further wrinkle — or conversely, perhaps the key to the apparent contradiction — is the distinction between with-child and childless participation gaps. Recall that the average childless EITC benefit is an order of magnitude smaller than the average benefit with a child. To date, we have been considering the case where Jamie's income made them ineligible for childless EITC. But suppose their income were \$12,000. In this case, they remain EITC-eligible without a child — but the credit would be worth 85% less.
 - Suppose that Jamies in this case are very likely not to file, perhaps in large part because of the smaller EITC. In this case, since non-filer households do not have their household composition adjusted, the participation gap would be unbiased in per-person terms, but badly biased in terms of dollar amounts.
 - Suppose, alternately, that Jamies in this case do file, but they often fail to claim the childless EITC. (This would, of course, raise a new question, as to how their tax software or tax preparers were letting this childless EITC go unclaimed.) In this case, again the participation gap would remain the same size in per-person terms. The Coleman methodology, though, would estimate a much smaller dollar gap than the apparent Plueger methodology, and a much larger fraction of the gap would be comprised of childless, rather than with-child, non-claimants. Any estimates of the dollar gap driven by older research than the Coleman paper would in this world be over-estimating the portion of the gap comprised of households with children, and thereby over-estimating the dollar gap. There is indeed some (admittedly very circumstantial) evidence for this theory:
 - [Zucker and Ramamurti \(2024\)](#), writing before the release of the Coleman paper, summarize the extant EITC gap research, finding that most sources point to the EITC taxpayer gap being about 50% childless, and the total EITC dollar gap being around \$10 billion. The analysis suggests that, if intra-family misclaims were in fact seriously biasing these statistics, the gap would be about 80% childless, and the dollar gap about \$3.6 billion (see Appendix C).
 - Coleman et al, more consistent with these later numbers, appear to suggest a gap of \$4.5 or 4.7 billion¹²⁶ for TY2019 (the last year in their data before pandemic-era distortions), and report that 71% of households in the TY2021 EITC gap are childless (with perhaps still more childless *for purposes of EITC*). But both of these figures should be taken with a grain of salt. Regarding the former: the paper seems to systematically underestimate all dollar figures, due, it says, to weighting issues (see Footnote 5). Regarding the latter: the paper, frustratingly, does not systematically publish with-child/childless estimates, and provides this figure only for TY2021. The TY2021 rules vastly expanded eligibility for childless filers, which could have had

¹²⁶ Table 3 reports \$4.7 billion. Table 1 implies \$4.5 billion.

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the impact of biasing the incidence of children in the non-claimant pool for that year.

- If this circumstantial evidence were correct, though, we could be looking at the following situation:
 - Older estimates did not correctly account for the intra-family misclaims. This yielded a \$10B gap, with half of the gap (in terms of tax units, not dollars) being those with children.
 - Newer estimates since Coleman correctly account for the intra-family misclaims (on the underclaim side). But the Jamies of the world, who are in point of fact eligible for childless EITC, are filing but not claiming it. They remain in the participation gap, but at a far lower dollar rate than previously assumed. In this case, the participation gap in dollar terms remains far smaller than assumed.
- On top of all this, there are questions about the PIK methodology (used to probabilistically link Census records to IRS data) and whether it introduces its own distortions, which could also be obscuring the EITC participation rate — due either to erroneous matches (which should be very rare, per [Layne et al \(2014\)](#)), or due to non-random failure to assign a PIK (see [Raze et al \(2026\)](#)).

What should we conclude from this exercise? There are a handful of possibilities, not entirely mutually exclusive:

1. Perhaps all EITC statistics have always correctly accounted for intra-family misclaims among filers (Plueger and Jones each accounted for it correctly, but the text of the papers was misleading), *and* Jamies are not especially likely to be non-filers. In this case, the 20% EITC participation gap is driven entirely by other issues, and changing dependent definitions will not impact it. In this case, too, the fact that the underclaim and overclaim populations approximately match in size is entirely coincidental. Even in this case, reforming the definitions would still cause overclaims to fall, and resolve other problems outlined throughout Section 12.2.
2. Perhaps Jamies are overwhelmingly likely to be non-filers; low-income taxpayers are simply not bothering to file at all when they do not claim children. In this case, the Jamies' modeled eligibility is *not* adjusted in any of the participation rate estimates, and the participation gap is a function of intra-family misclaims (whether or not there was a change in methodology). In this case, the analysis presented in 12.2.2.1 would slightly overstate the impact amending definitions would have on the participation gap, but not by much.¹²⁷
3. Perhaps Jamies do file returns and are eligible for childless EITC, but for whatever reason fail to claim it. Older research did not adjust modeled EITC eligibility, was thereby stymied by intra-family misclaims, and therefore estimated a large participation gap in dollar terms based on the assumption that Jamie households had

¹²⁷ More households would remain in the gap, but they would move from the with-child gap to the childless gap, vastly decreasing the amount of money left on the table.

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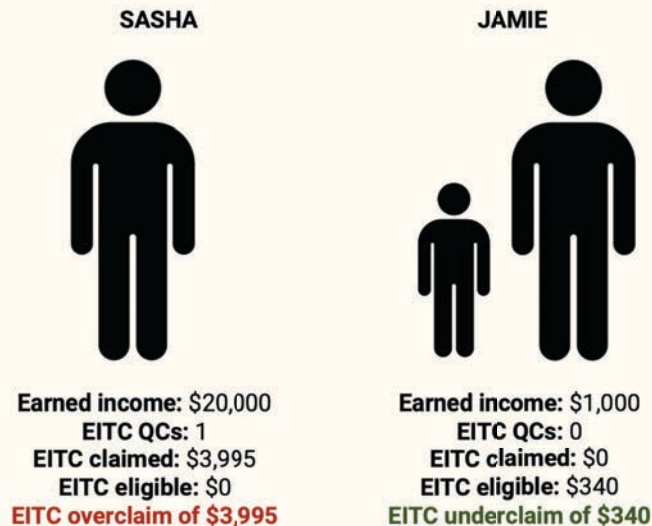
children. Newer research following Coleman correctly assesses that the Jamie households are in fact childless households for EITC, and are still in the gap, but with far smaller dollar figures. The participation gap in person terms would not, in this world, have changed over time. In this case, again, the analysis presented in 12.2.2.1 would slightly overstate the impact amending definitions would have on the participation gap, but not by much.¹²⁸

4. Finally, as suggested by Footnote 10 in the Coleman paper, and by the apparent consistency of the estimates over time, perhaps the current participation gap estimate continues to *not* adjust the Jamie modeled households, and suffers from intra-family misclaims in the straightforward way one might expect. In this case, the analysis in 12.2.2.1 is correct on the merits.

We do not know which of these options is most likely. (Such ambiguity drives our argument in [Section 14.2.1](#) that we need better data on the non-filer population.) Still, in all cases, there *are* measurement distortions stemming from the current dependent rules.

12.2.2.3 “Gaming”

So far in this section, both households were eligible for the same amount of EITC. Now let’s suppose a slightly different scenario. Again, Sasha and Jamie have a productive co-parenting relationship: Sasha is the breadwinner, supporting the child financially, and Jamie stays at home to provide child care. Naturally, the child spends slightly more time with Jamie. Jamie has nearly no income and is not required to file taxes, so opts not to; Sasha files and claims the child, with Jamie’s approval. But the IRS, expecting Jamie to claim the child, sees:



¹²⁸ Again, more households would remain in the gap, but they would move from the with-child gap to the childless gap, vastly decreasing the amount of money left on the table.

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In this case, the misclaim *does* cost the government money, relative to the letter of the law; the overclaim exceeds the underclaim by \$3,655. We might say the family is improperly and strategically assigning children to the family member eligible for a larger credit.¹²⁹

This analysis is restricted to EITC, but under current law, Sasha is also eligible for over \$1,000 in CTC, whereas Jamie is eligible for \$0. [Goldin and Jurow Kleiman](#) estimate that 1.6 million children are in this situation for CTC. There is also the more extreme scenario where Jamie has \$0 earned income, and so is eligible for \$0 in EITC; no one can claim the child for EITC. The authors estimate 1.2 million children (a near-subset of the 1.6) are in this situation.

In other words, it is plausible that a large portion of intra-family misclaims reflect situations where the family strategically assigns the child to a household who can get the benefit, rather than the “correct” household, who can’t. If the maximal interpretation of the aggregate statistics in Section 12.2.2.1 is accurate, the 1.6 million households identified by Goldin and Jurow Kleiman could well represent slightly over half of the intra-family misclaims. This is consistent with [Leibel et al](#)’s estimate that 85% of improper child claims generate a larger, rather than a smaller, EITC.¹³⁰

Policymakers may argue, even if we can get comfortable with the family implications of benefits being routed through a different household, that there is a policy interest in preventing such costly “gaming.”

Still, it is worth thinking critically about the nature and impact of such gaming:

- In the scenario above, the letter of the law denies the child access to CTC and most of EITC. Is it really a policy failure for families to find a way to receive this support? Consider that, if Sasha and Jamie were still married filing jointly, they would receive both credits.
 - Similarly, consider a scenario where mom did not work this year due to an illness, or while recovering from addiction, and grandma provided the financial support during the hard time, despite not literally living with her grandchild. Again, families can get EITC and CTC only by assigning the child to grandma. Does the law really intend to deny this family the support, particularly during their hour of need?
- Policymakers are probably more concerned about a scenario where a wealthy family — who more clearly does not deserve EITC — games the system by assigning the child to a lower-income member of the family. It is true that such behavior would maximize EITC, as Leibel et al document.

¹²⁹ The “gaming” dynamic could also impact the aggregate statistics. Because of this behavior, the amount of money on the overclaim side ought to exceed the amount of money on the underclaim side; on average, the same child is worth more to the household who actually claims them than the household who forgoes them. Because of the number of unknowns in the aggregate figures, we do not attempt to model this dynamic.

¹³⁰ To a first order of approximation, based on this 85% figure, we might assume that 70% of misclaims are intentional assignment to higher-EITC household, while the other 30% are assigned without regard for the resulting credit claims, with half falling in the red and half in the black.

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- Consider first, though, that EITC is only one part of the tax system. Suppose a single mom who is quite wealthy, earning \$150,000, allows grandma, with earned income of \$10,000, to claim the child. Grandma now claims \$4,534 in combined EITC and Additional CTC.¹³¹ But mom forgoes Head of Household filing status and CTC, increasing her tax liability by over \$5,000.¹³² Of course, this is only one scenario, and there are certainly cases where wealthy families would stand to gain by reassigning children to lower-income tax units. But a more holistic analysis may show such a scenario is less plausible and less common than some policymakers may think.
- To the degree that this more problematic gaming does occur, though, the IRS will usually have the tools to distinguish it from the case above, where both households have low (or moderate) incomes. Policymakers need not paint high-income gaming with the same brush as low- and middle-income gaming.
- Leibel et al also ascribe a significant portion of EITC gaming to cases where Sasha has already claimed three children, the maximum for EITC, and allows Jamie to claim the fourth. This is again improper by the letter of the law, as Congress has determined to provide no additional marginal EITC support for fourth children and up. But it is not hard to imagine why families would seek additional support for their additional children, and why they may not understand that to be improper.

In short, some portion of intra-family misclaims may, on net, cost the government money. But we encourage policymakers to think seriously about the severity of this alleged policy failure. Even if some policymakers are committed to the idea that “gaming” along the lines of the above is intolerable, is it really tantamount to outright fraud? Is it really a case of millions of households abusively claiming children who are simply not theirs, and millions of others unwittingly missing out on a credit they could claim if only they would file a return? And to the degree some cases truly are so problematic, can they not be distinguished from those that are much more benign?

12.2.2.4 Policy impact

Meanwhile, the perception of these vast populations of under- and over-claims has very serious implications.

On the over-claim side, the EITC is regularly trotted out as a lion’s den of waste, fraud, and abuse — the federal assistance program with *by far* the highest improper payment rate in the government. (The second highest, a tie between Medicaid and school lunches, have improper payment rates less than half that of EITC, [according to the National Taxpayer Advocate](#).) Some politicians may hold up the EITC improper payment rate with the ideological goal of discrediting government assistance in general — for which purpose the statistics provide useful grist. Others may look on the abuse with sincere concern and

¹³¹ \$3,409 in EITC, and \$1,125 in the refundable portion of the CTC.

¹³² Using tax year 2024 figures: with AGI \$150,000, a single filer has a taxable income of \$135,400, and \$25,539 in tax owed. A HoH filer with one CTC child has a taxable income of \$128,100, and \$20,093 in tax owed after CTC — \$5,446 less.

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constantly cast about in good faith for ways to reduce it. This led, in the 1990s, to disproportionate audits on EITC families, who were audited at rates much higher than wealthy taxpayers, and to the addition, in [the Taxpayer Relief Act of 1997](#), of section 32(k), the [now-infamous paragraph](#) that bans families from the EITC for two or ten years if they are found to claim it improperly. More recently, in 2025, the improper payments concern led to a proposal for an EITC child pre-certification program, in H.R. 1, [that could have blocked access to millions of eligible families while doing little to cut down on improper payments](#). Even if some advocates may themselves dismiss the import of a few billion dollars in alleged improper payments, they should still take seriously the onerous consequences that can be imposed on claimants when such concerns are allowed to fester. For those who *are* concerned about improper payments on their own merits, meanwhile, the estimated billions in improper payments due to improper child claims have served only to distract from the billions more in true improper payments due to misreports of income, sometimes at the behest of shady tax preparers, oversight of whom could *actually* meaningfully cut down on overclaims, as well as provide myriad ancillary benefits.

On the under-claim side, vast programs have been funded and built to address the alleged billions-of-dollars gap in EITC access. But the actual size and nature of this gap is, at best, subject to significant uncertainty. It is very likely we are looking in fundamentally the wrong place for the access gap — looking for millions of taxpayers with children, when the only true non-filers are, perhaps, young, single, childless taxpayers who have never filed before. Reaching such different types of groups could well require vastly different interventions. And, in the long run, truly closing the access gap (rather than just attacking it) requires an accurate measure of it.

12.2.3 Improper claims due to first-come-first-served implementation

As discussed in Section 12.1.3, despite what the statute says, in practice the administrative system strongly privileges the taxpayer who claims a child first. In the best case, this generates unnecessary pressure within complex families to file quickly, lest an inappropriate claimant beat you to the punch — a pressure which is widely reported anecdotally. In the worst case, it dissuades the appropriate family from filing a claim to their child in the presence of an incorrect competing claim, due to the high and opaque administrative costs of filing a challenge, allowing an inappropriate or even fraudulent child claim to stand.

12.2.4 Administrative burden on taxpayers and administration costs

Even in cases where the system generates an appropriate outcome, there is the question of the costs this complexity generates.

Taxpayers must answer dozens of detailed, sometimes-impenetrable questions about everyone in their family, and mail the IRS legalistic disclaimers like Form 8332; tax software must build, maintain, and test this functionality; tax agencies must design forms, answer questions from taxpayers and software developers, and enforce compliance. This creates

substantial monetary costs for tax software (consider that nearly 15% of all pages in Direct File — and, qualitatively, an even larger fraction of the total effort — were in the dependent flow), which is passed on to taxpayers via filing fees, or by tax agency program costs; it creates administrative costs for federal and state tax agencies; and it creates meaningful time costs for taxpayers. Right now, the complexity of family questions may not be so glaring, overshadowed by all the other complexity in the tax code. But if income-related questions in tax software can eventually be largely waived by pre-population, family information will become the one remaining source of intractably onerous complexity in tax prep — simply unavoidable under current law.

And the vast energy taxpayers, tax software providers, and IRS enforcers end up spending on these sprawling esoteric minutiae ends up distracting from building and enforcing a system that really does route benefits to those who need them.

12.2.5 Perceptions of complexity

In addition to literal time and administrative costs, there is the more intangible impact all of this has on perceptions of the tax code.

Americans widely perceive that the tax code is too complex for humans to understand; rather than a simple reflection of the desires and needs of the body politic, the code (and the agency that enforces it) is a trick designed to catch them in unwitting mistakes, they think. And it is this very complexity that drives taxpayers with otherwise straightforward tax situations to pay handsomely for tax software or private paid preparers, who promise to handle the complexities. The misperception that normal human beings can't do their own taxes is, unfortunately, based on reality.

Frustration over taxpayers' reliance on often-unscrupulous paid preparers is ubiquitous in the tax field. But policymakers should take seriously the role an impenetrable tax code plays in pushing taxpayers to such measures. The complexity of dependency rules hits close to home for families, and no amount of technology or pre-population will be able to save us from rules that don't match taxpayers' intuitions.

The complexity of the rules is, to again use Secretary O'Neill's words, simply "not worthy of our free society." In addition to saving time and money, fixing them can begin a virtuous cycle of rebuilding trust.

12.3 User research findings

Over the years, user research for Direct File and other tax products has learned much about taxpayer's attitudes toward tax filing, and about the challenges products would need to overcome. Usually, these exercises treated tax law itself as an immovable object: working with taxpayers, the team might find ways to better explain the law, but not to change it. But what if we were to apply the same methods to tax policy? What would happen if we worked

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with taxpayers to redesign the Internal Revenue Code? What rules would they find confusing or intuitive?

This is the project we set out to do with the dependency rules during user research in summer 2025. We aimed to understand how taxpayers *do* interact with dependent-claiming today, how they expect it to work, how they would prefer it to work. We explored this question in four ways:

- We asked taxpayers how they have dealt with child claiming decisions to date.
- We showed taxpayers a list of possible criteria they might use to prioritize child claims, and asked them to respond to the list, telling us about the relative importance of each.
- The core exercise: We showed taxpayers six scenarios where two different tax units might plausibly claim a child, asking who should be able to claim the child and why. The cases are hypothetical, but based on real situations that can occur. We did not explain to participants what current law would say about the scenarios.
- We showed taxpayers two plausible sets of rules (one modeled on the U.S. code and one modeled primarily on the Canadian code), and asked which made more sense.

For all but the first question, we asked taxpayers to set aside their understanding of the rules as they exist today. We wanted to learn: what do taxpayers think the process of claiming a child ought to be? We asked: if you were forming a new country and building the tax rules from scratch, what would be a reasonable, intuitive, or fair approach for determining who should be able to claim a child?

Eight of our user research participants had personal lived experience claiming dependents on their taxes; seven did not. We hypothesized that these different groups might have divergent opinions, and in the results that follow we generally distinguish whether a given participant has relevant lived experience — though we generally find little difference between the two groups.

The first set of findings from this user research were presented above, in Section 12.1.6, covering how taxpayers currently claim dependents. Below, we cover first taxpayers' responses to the scenarios, and then abstract from the scenarios and other comments to a handful of insights: meta insights about the exercise itself; procedural insights about *how* claiming decisions should get made; and substantive insights about what factors taxpayers look at in making prioritization decisions.

12.3.1 Scenarios

The table below summarizes the six scenarios and participants' responses. When using names in the scenarios, we intentionally used gender-neutral names (though participants often imputed gender to the claimants). We urge the reader not to get too lost in the details of each case; we will present more on participants' rationales and unified theories of their intuitions in Section 12.3.4.

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Scenario	Participant responses	Treatment under current law
<p>1. Taylor and Cameron are separated parents. Child lives 305 nights with Taylor and 60 with Cameron. Cameron pays child support and the majority of expenses.</p>	<p>A. Taylor (parent with more time): 2 votes (1 with lived experience)</p> <p>B. Cameron (parent providing financial support): 10 votes (5 with lived experience)</p> <p>C. Other: 3 votes (2 with lived experience)</p> <ul style="list-style-type: none"> – 50-50 split – Depends on who pays the house’s expenses – Depends on who would get the biggest benefit 	<p>Only Taylor can claim child. (Residency test; 152(c)(1)(B).)</p> <p>Exception: Taylor can cede some claiming rights to Cameron via Form 8332.</p>
<p>2. Casey and Jordan are a non-married couple who move in together in February. Casey pays all household expenses. Jordan does not work and has a child from a previous relationship.</p>	<p>A. Casey (pays costs): 7 votes (4 with lived experience)</p> <p>B. Jordan (bio parent): 8 votes (4 with lived experience)</p>	<p>Only Jordan can claim the child for most benefits. (Relationship test; 152(c)(2).)</p> <p>Exception: if the couple lived all year together with the child, Casey would be able to claim the child for <i>some</i> benefits (as a qualifying relative).</p>
<p>3. Child began the year living with their parent but moved in with their aunt in March. The parent lives in another state for the rest of the year, but sends money to support the child and aunt.</p>	<p>A. Parent: 9 votes (5 with lived experience)</p> <p>B. Aunt: 3 votes (3 with lived experience)</p> <p>C. Other: 3 votes (0 with lived experience)</p> <ul style="list-style-type: none"> – Family should sort it out – Depends whether mother’s money fully covers costs – Depends whether parent has effectively abandoned child 	<p>Only the aunt can claim the child. (Residency test; 152(c)(1)(B).)</p>
<p>4. A married couple who file jointly (#1) and their child move in with a grandparent (#2) in March. The grandparent provides the majority of the grandchild’s support for the whole year.</p>	<p>A. Parent: 2 votes (1 with lived experience)</p> <p>B. Grandparent: 12 votes (7 with lived experience)</p> <p>C. Other: 1 vote (0 with lived experience)</p> <p>Family should sort it out; if not, an equation that weighs parenthood</p>	<p>Only the parents can claim the child for most benefits (though grandparents claim for HoH QP). (Parent gets priority in tiebreaker; 152(c)(4)(A)(i).)</p>

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Scenario	Participant responses	Treatment under current law
	against financial contributions.	Exception: If grandparent has higher income, parent can cede claiming rights to grandparent.
5. The child moves from the home of their parent (#1) to their grandparent (#2) in August, when their parent is deployed overseas. The grandparent provides the majority of financial support all year.	<p>A. Parent: 4 votes (2 with lived experience)</p> <p>B. Grandparent: 10 votes (6 with lived experience)</p> <p>C. Other: 1 vote (0 with lived experience) Family should sort it out.</p>	Only the parent is eligible to claim the child. (Residency test; 152(c)(1)(B).)
6. Three children of never-married, now-separated parents spend equal amounts of time with each parent. ¹³³	<p>A. Split tax benefits 50-50: 6 votes → + default to father if needed: 1 vote → + default to mother if needed: 2 votes</p> <p>B. Split kids across the two returns, and trade years for odd-numbered children: 4 votes → but follow divorce decree first: 2 votes</p> <p>C. Come to an agreement: 1 vote</p> <p>Other: 3 votes – A or B – A or C – Depends on other details</p>	Current law has no notion of “equal amounts of time.” Whichever parent had 183 days of co-residency (to the other’s 182) can claim the child. (Residency test; 152(c)(1)(B).)

12.3.2 Meta insights

12.3.2.1 The current rules are not popular

Out of 89 total votes,¹³⁴ only 19 votes actually matched current law. Of course, these were complex scenarios designed to probe the edges of the law. But, 21% is still a remarkably low rate. **We think we can reject the null hypothesis that the current rules map well to taxpayers’ intuitions.**

¹³³ Scenario #6 was added after the first interview, so there were only 14 total votes.

¹³⁴ We added Scenario #6 after completing the first interview.

12.3.2.2 Taxpayers often disagree about who should claim a child

The most obvious but perhaps most important insight from this exercise: **it is probably impossible to generate a single set of determinative tests whose outcome will please every taxpayer and cover every situation.**

For one thing, taxpayers themselves, as they went through the scenarios, often increasingly realized they could not define consistent principles they would want to apply in each case:

- *“I hadn’t realized how complicated and challenging it is to come up with a fair answer for this. The more you try to make it fair, the more complicated and convoluted the process gets.”* — Participant #6
- *“These scenarios, man. I thought my life was complicated. The grass is not greener on the other side.”* — Participant #9
- *“I feel like, oh, man, so many nuances. I mean, there’s probably a lot of people getting audited for doing their taxes wrong. I worry right now reading all these scenarios.”* — Participant #1

Sometimes, participants explicitly appealed to the idea that any hard-and-fast rule was going to return the wrong answer in some scenarios:

- *“I think it really still at the end of the day depends on the situation between each parent.”* — Participant #9
- *“I say that every situation is different. And so you can’t say that whatever works for this person is going to work for the other... Every situation, I think, should be taken differently.”* — Participant #5

Commonly, taxpayers gave answers that implicitly contradicted earlier answers. One participant,¹³⁵ for example, found for Cameron and Casey on account of financial expenses; but then found for the aunt on the grounds that the mother was just too uninvolved, and the financial expenses weren’t enough.

To the degree that taxpayers identified sound principles, they often began to hinge on minute distinctions that cannot be specified at scale. For example, several participants were more sympathetic to a parent’s claim if they failed the residency test because they were deployed overseas (Scenario #5) than if they were living in another state for less clearly defined reasons (Scenario #3). Or, similarly, participants said the stylized facts we provided were insufficient given how such decisions should be based on less cut-and-dry facts:

- *“Tax isn’t, you know, black or white; there’s gray area.”* — Participant #10 (who works as a tax accountant)

Moreover, even if individual taxpayers were clear and consistent, they certainly did not universally agree with one another. No scenario had consensus; scenario 2 even divided participants exactly eight to seven. Even when a single principle commanded a large

¹³⁵ Participant #5.

majority of responses, as with the prioritization of a support test in Scenario #3, there was still a 25% faction who disagreed. 75% is a commanding majority in the context of, for example, electoral politics, but it's far from unanimity in the case where we seek 100% compliance with the law.

This dynamic mirrors the reflections of policy experts we have spoken to who were involved in earlier dependency streamlining efforts. It is not that previous simplification efforts were not well-intentioned, or were not cognizant of the existence of a huge variety of family and caregiving arrangements in the modern United States. It is that coming up with a single standard that can apply in every case is nigh on impossible.

12.3.3 Procedural insights: how the decision should be made

The above insights might cause policymakers to despair: how can we write good dependent rules if no one agrees, even with themselves, on what those rules should be?

The insights in this section should be reassuring. While taxpayers may not be able to agree on how to write determinative rules that yield the correct prioritizations in every case, they also do not generally see the need to: **most taxpayers think there should be wide latitude for claims to be resolved ad hoc by families, rather than codified in statute.**

12.3.3.1 Within reason, families should be able to decide among themselves who claims a child

As they went through scenarios, despite the provisional conclusions they came to in each case, many participants' answers began to return to a familiar solution: reaching an agreement among family members and caregivers. It's the way many of them had already been approaching child claiming themselves, or how they had seen friends and family approach it (usually not realizing it is technically unlawful today), and they thought it was the right approach:

- *"I think if you can come to an agreement, I think each person's situation is likely very unique... And so to me, it just makes more sense to have those conversations internally. And if you can, then just do that." — Participant #9*
- *"I think there needs to be an agreement between adults or else you're just going to be bickering for the next 18 years... And if there's anything that changes, communicate as adults... I think it's better to just give people information and then let them decide, you know, how they want to go about claiming their children for tax season." — Participant #8*
- *"I almost feel like this is one where I would hope the family could sort it out themselves and choose what seems the most right for them...because they're family members and there seems to be some level of collaboration here, maybe there's an opportunity to just allow them to make that decision about who's going to claim the child." — Participant #6, reflecting on Scenario #3*

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- *“Agreement between the family, that’s important... It needs to be in writing...because feelings change... ‘You said this’...No, we put it in writing and this is what we’re sticking to. doing. Anytime that agreement changes, we need to actually update it, even if it’s informal, even if it’s just something in Word, and we all have a meeting of the minds and we all sign it just so there’s understanding... Deciding who claims kids when you’re sharing responsibility, that is a very tricky thing. And I think people make it gray and it’s not. It’s very black and white. The problem is no one talks about it at the beginning of the year. They just all want to fight for who’s going to claim the kids when it’s time to file the taxes.” — Participant #11*

Often, participants explicitly called out that an agreement among the family should supersede other principles, even if they were committed to the alternative principle:

- *“I think the parent [should claim], because that’s the original mother... If it was forced onto the aunt, or it was an agreement between them, or if the parent abandoned their child, that’s a bit of a different case.” — Participant #14, discussing Scenario #3 (emphasis added)*
- *“And again, if you already had a prior agreement, that agreement should stand, whether it be verbal or written. — Participant #3*

Not only would working things out within the family allow the child’s caregivers to determine who was really caring for the child, but it would also support more multidimensionally-optimal arrangements. It could allow different family members to allocate costs and benefits in different ways, and it could even take into account the needs of the various caregivers, something current law considers completely irrelevant:

- *“I have a male cousin who was not able to financially support his daughter for a variety of reasons, but he had a good relationship with the girlfriend who had full custody of the daughter. In the end, even though she was gracious enough to say, hey, if you want, you can claim the child, he’s like, you know what, why don’t you do that? Because I was not able to really give you as much money as I wanted to on this monthly basis. They did not have a child support agreement. They just had a verbal agreement.” — Participant #8*
- *“I guess it just depends on the situation and how the aunt is living at the time and if she really needs that amount.” — Participant #3, discussing Scenario #3*
- *“I think it should be case-by-case type of thing, because maybe they came to an agreement with this, like you pay all of this [cost], and I’ll take care of saving, and maybe one day we buy a house or something like that.” — Participant #5*

We asked some participants what they would expect to have happen if someone else claimed their children. Again, probably unsurprisingly, participants told us they would want to have a conversation about it:

- *“If it was their mother, I would talk to her about it, see what was going on, especially if we had a prior conversation about who was going to claim them.” — Participant #3*

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These insights of course dovetail well with Section 12.3.2.2: it's probably impossible to create a set of rules that picks the best claimant in every case. But taxpayers are generally comfortable with the idea that the rules don't have to.

12.3.3.2 Credit maximization / “gaming,” reimagined

In discussing how a family might decide among themselves who should claim a child, participants sometimes described the credit maximization / “gaming” behavior so concerning to policymakers: taxpayers described allocating the child to the claimant who would get the largest tax benefit. But, universally, they did not consider this to be shady or immoral behavior; rather, it was an extension of the process of figuring out what works best for the family in general.

- *“Cameron makes more sense to me in this particular scenario. But if Cameron doesn't benefit from the claimage, then Taylor.”* — Participant #9, discussing Scenario #1
- *“Mom, without any work, wouldn't be able to get their earned income credit...but the non-biological person would be able to get those [credits]. So it would make better sense as a unit in a household to have the bill-paying person claim the child.”* — Participant #12, discussing Scenario #2
- *“Well, because if you're filing taxes, it's based on income. She doesn't work. So she's not going to have any income. So everything would be zeroed out. So plus, I mean, he's the one with the income coming in and he's the one that's paying the expenses.”* — Participant #4, discussing Scenario #2
- *“When there's an amicable relationship between the parents, at times the parents decide who's going to claim the child based on their income. And sometimes when there are those really positive relationships between these two adults, then it's kind of like, you know, maybe it'll benefit you because you're in this position.”* — Participant #8

It is worth taking this insight seriously. “Gaming” can — and does — occur. Generally, though, taxpayers simply don't see it as wrong. Policymakers may object that taxpayers aren't sufficiently understanding the costs and injustice of this gaming. But, in a democracy, there is a logic to writing rules that match citizens' ethical commitments, instead of fighting them.

12.3.3.3 Legal agreements — principally including divorce decrees, and rotating-year scenarios — should come first, and are seen as a special case of families working it out for themselves

We have already covered the fact that many families — probably millions across the country — have divorce decrees or other legal paperwork stipulating child claiming rights, paperwork families trust and assume must be legal.

The key insight we want to add here is that these legal agreements are often seen as a special case of the family agreements discussed above. **In taxpayers' mental models, agreements among the family come first. When informal agreements are insufficient, family negotiations might be escalated to the legal domain, where they become**

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formalized in family court. The latter is merely an extension of the former: taxpayers often discussed informal verbal agreements and written legal ones in the same breath.

- *“What happens if people can’t agree on these terms? This is why people have divorce paperwork, I think. That’s exactly why lawyers exist... I’d say probably most people have a divorce agreement, which if you have a good lawyer should stipulate how this is going to go. If not, then I’m guessing you probably should have a good co-parenting relationship to have a discussion, like an amicable discussion to agree on who does this.”* — Participant #1
- *“They [the potential claimants] may not be able to come to an agreement about that particular thing, and that might be something they’d have to go to court over.”* — Participant #12

Indeed, taxpayers’ intuition seems to be that it is in court that child claiming conflicts are definitively resolved, not in the office of an IRS auditor applying the rules of IRC 152. The notion that courts — agents of the state — are freelancing opinions that the IRS does not respect does not occur to most taxpayers. Why wouldn’t the (presumed monolithic) government trust its own determinations?

12.3.3.4 But if there is conflict, there need to be firm rules

There is, however, an important caveat to taxpayers’ general belief in a case-by-case, non-legalistic approach to child claiming rules.

We hypothesized taxpayers might prefer a more laissez-faire rules framework in general. After showing them the six scenarios, showed taxpayers (a) a set of rules resembling the existing definition of a qualifying child and (b) an alternate set of rules based on Canada’s simpler and more “vibes-based” framework. (Neither was identified as belonging to a particular country).

**Determining who can claim the qualifying child:
Version “U”**

<p>Step 1:</p> <ul style="list-style-type: none">• Is the child your legal child, sibling, or descendant of any (e.g., grandchild, niece, etc.)?• Did the child live with you for more than half the year?• If non-custodial parent: did the custodial parent provide a written statement allowing the you to claim the child? <p>If yes to all, you can claim.</p>	<p>Tiebreakers: if multiple people can claim</p> <ol style="list-style-type: none">1. A parent can claim the child over a non-parent (like a grandparent)<ol style="list-style-type: none">a. Exception: Non-parent claims if parent allows AND non-parent has higher AGI.2. The person the child lived with longer claims.3. If equal time, parent/claimant with higher AGI claims. <p>The person who passes these tiebreakers in order can claim.</p>	<p>Step 2:</p> <ul style="list-style-type: none">• Did you pay more than half the cost of keeping up the home that the child lived in?• Did you live with the child for more than half the year <u>in the U.S.</u>? <p>If yes: you can claim additional tax benefits.</p>
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Determining who can claim the qualifying child: Version “C”

Determine:

Who was primarily responsible for the child's care and upbringing? For example:

- supervising the child's daily activities and needs
- making sure the child's medical needs are met
- arranging for child care when necessary

The adult who best fits this description can claim the child and all tax benefits.

We expected that taxpayers would prefer the more straight-forward Canadian-inspired framework. To our surprise, participants usually preferred the more complex and prescriptive U.S. rules, provided they did not get distracted objecting to any specific aspect of them. (The tiebreaker of awarding the child to the parent with the higher AGI, in particular, drew several taxpayers' ire.¹³⁶) Taxpayers felt that the Canadian version was too vague to actually be helpful in resolving a conflict:

- *“I think they really need to have a list of questions that they need to answer within themselves and possibly with the other parent or grandparents... There need to be more questions for people to really start to think about, because sometimes you start researching something, and you're like, oh, I didn't think about that, or oh, I didn't know that that was also part of an expense.” — Participant #8*
- *“The more yes or no questions, the better... I still think there should be some kind of thing that you fill out throughout the year, kind of force people to pay attention to what they're doing, because you're going to get to tax filing time and this stuff is going to frustrate you.” — Participant #13*
- *“I feel like version C does not really go into depth like the previous version does. I almost feel like version C, both parents could be like, oh, yeah, that's me... [I'd choose] version U, only because I feel like it gives more information, whereas version C is very vague.” — Participant #1*
- *“It's just that it's more clear cut and more concise and less room for potential self-interpretation. [With Version C, you] could send that to each party and they could say, I do that.” — Participant #9*
- *“[I'd pick] Definitely the first scenario [Version U], because it takes a little bit more information to assess that out. And sometimes in families, there are dynamics where*

¹³⁶ A number of participants remarked on the AGI tiebreaker. Some did not understand what it had to do with child claiming at all. Some thought it was written backwards: surely the law meant the lower AGI, so that families would be able to claim the EITC. Some ascertained that the law was using AGI as a proxy for the amount of financial support provided by the household, and objected that this was not a good assumption: *“It doesn't mean, just because you earn more, that you're going to contribute more.” — Participant #5.*

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one person is a stronger personality than another, and maybe that other person wouldn't speak up [under Version C].” — Participant #12

- *“The more detail, the better it is.” — Participant #3*

Importantly, though, participants did not prefer Version U *in lieu* of a family-decides framework. Several reiterated their preference for ad-hoc family decision over formulaic determinations, even after reviewing the two frameworks. The distinction appeared to be that, in the case where families cannot agree, there must be concrete rules to fall back on. Put differently, taxpayers would prefer if families can work it out for themselves, based on existing legal processes, or based on their own informal negotiations. But if the holistic vibes-based process of family negotiation fails to yield consensus, there needs to be something *less* vibes-based.

12.3.4 Substantive insights: whose child is this?

Putting aside taxpayers’ stated preference for case-by-case resolution, if taxpayers *did* have to specify deterministic rules, what would those rules be? How are taxpayers reasoning through these decisions? The table below summarizes the principal arguments mounted for the selected adult in each case (not including Scenario #6, which does not lend itself to the same type of considerations):

Scenario	Participant responses
<p>1. Taylor and Cameron are separated parents. Child lives 305 nights with Taylor and 60 with Cameron. Cameron pays child support and the majority of expenses.</p>	<p>A. Taylor (parent with more time): 2 votes (1 with lived experience) Care can't be calculated, and it can outweigh financial contributions. <i>“I would resort to the parent that provides the most care because I think we can't put a quantitative price tag on what providing care looks like.”</i> — Participant #12</p> <p>B. Cameron (parent providing financial support): 10 votes (5 with lived experience) Because Cameron is providing the most money. <i>“Taxes are about money.”</i> — Participant #2</p>
<p>2. Casey and Jordan are a non-married couple who move in together in February. Casey pays all household expenses. Jordan does not work and has a child from a previous relationship.</p>	<p>A. Casey (pays costs): 7 votes (4 with lived experience) Taxes are about money; it's about who is paying, and Casey is providing the financial support. <i>“It should be the de facto parent.”</i> — Participant #2 <i>“It may be Jordan's child, but I think it goes down to who's paying for the expenses.”</i> — Participant #15</p> <p>B. Jordan (bio parent): 8 votes (4 with lived experience) The biological relationship should take precedence; there is no formal connection to Casey. <i>“Casey and Jordan can break up in March.”</i> — Participant #10 <i>“In this instance, only the parent, the actual parent, should be able to. I mean, if they were married, it might be a little bit different.”</i> — Participant #1</p>

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Scenario	Participant responses
<p>3. Child began the year living with their parent but moved in with their aunt in March. The parent lives in another state for the rest of the year, but sends money to support the child and aunt.</p>	<p>A. Parent: 9 votes (5 with lived experience) Most say that tax benefits should follow the money. Some participants also say the parent should take precedence, or that the aunt's involvement is probably contingent. <i>"Living with someone isn't as quantifiable as actual financial payments."</i> — Participant #15</p> <p>B. Aunt: 3 votes (3 with lived experience) Time with the child makes the aunt the real parent. <i>"Taking care of a child is not an easy task. Yes you're helping out financially but I'm thinking about all the emotional and the investment that it takes. This aunt is basically taking the parent role."</i> — Participant #5 <i>"Once a parent lives in another state, I'm going to say aunt gets to claim the child, hands down. You cannot put a financial monetary amount on time, and she is spending nine months out of the year caring for this child while the parents are out of state."</i> — Participant #12</p>
<p>4. A married couple who file jointly (#1) and their child move in with a grandparent (#2) in March. The grandparent provides the majority of the grandchild's support for the whole year.</p>	<p>A. Parent: 2 votes (1 with lived experience) Parental claims take some precedence. <i>"I mean, that's their child. The grandparent is just kind of being charitable, I think, there. The married couple should be able to claim the child, but whatever refund they get, it'd just be a nice thing to give it to the grandparent."</i> — Participant #13</p> <p>B. Grandparent: 12 votes (7 with lived experience) Most point out the grandparents are covering most of the child's costs. Also because they are paying and co-residing for most of the year. <i>"The grandparent is practically being the parent at this point."</i> — Participant #5</p>
<p>5. The child moves from the home of their parent (#1) to their grandparent (#2) in August, when their parent is deployed overseas. The grandparent provides the majority of financial support all year.</p>	<p>A. Parent: 4 votes (2 with lived experience) Not fair to penalize parent for being deployed; and parent <i>did</i> have the child most of the year, but <i>"if it was earlier in the year, then that's a different story."</i> — Participant #11</p> <p>B. Grandparent: 10 votes (6 with lived experience) They are providing the most money.</p>

As we look longitudinally across the scenarios, some participants tended to gravitate toward some version of a relationship test, which created a universe of plausible claimants. Within the universe of plausible claimants — whether or not limited by relationship — some version of a support test was usually the tiebreaker. But views differed on how restrictively

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to define the relationship test, and on how to define the support test at all. The participants broke down roughly as follows:¹³⁷

Participant	Scenario				
	1	2	3	4	5
1A. Follow the money, regardless of relationship					
11	Cameron (\$)	Step-parent (\$)	Parent (~\$)	Grandparent (\$)	Parent (for contingent reasons)
4*	Cameron (\$)	Step-parent (\$)	Parent (\$)	Grandparent (\$)	Grandparent (\$)
2*	Cameron (\$)	Step-parent (\$)	Parent (\$)	Grandparent (\$)	Grandparent (\$)
1B. Follow who is responsible (broader test than \$), regardless of relationship					
12*	Taylor (care)	Step-parent (\$/care)	Aunt (care)	Grandparent (care)	Grandparent (care)
7	Taylor (care)	Step-parent (\$)	Parent (\$)	Grandparent (\$/care)	Grandparent (\$)
5*	Cameron (\$)	Step-parent (\$)	Aunt (care)	Grandparent (care)	Grandparent (care)
Group 2A. Within the set of biological/legal relatives, follow the money					
15	Cameron (\$)	Parent	Parent	Grandparent	Grandparent
14	Cameron (\$)	Parent	Inconclusive	Grandparent (\$)	Grandparent (responsibility)
3*	Cameron (\$)	Parent	Parent (\$)	Grandparent (\$)	Grandparent (\$)
10	Cameron (\$)	Parent	Parent (\$/responsibility)	Grandparent (\$)	Grandparent (\$)
Group 2B. Within the set of biological/legal relatives, follow who is responsible (broader test than \$)					
8*	Probably Cameron (\$)	Parent	Aunt	Grandparent	Grandparent
Group 3A. Strong presumption for parents; among parents, follow the money					
1*	Cameron (\$)	Parent	Parent	Parent	Parent
13	Cameron (\$)	Parent	Parent (\$)	Parent	Parent
Group 3B. Strong presumption for parents; among parents, follow who is responsible					

¹³⁷ One participant gave too-contingent answers across the board to classify properly.

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9*	Inconclusive	Parent	Parent (responsibility)	Grandparent (for contingent reasons)	Parent (responsibility)
No classification					
6	Inconclusive	Parent	Inconclusive	Inconclusive	Inconclusive

* Had relevant lived experience

In other words, we can summarize taxpayers' view as varying along two different dimensions, as follows:

		Relationship test		
		Any relationship	Any legal/bio relationship	Parents first
Support / responsibility test	Follow the money	Group 1A 3 participants 2 w/lived exp	Group 2A 4 participants 1 w/lived exp	Group 3A 2 participants 1 w/lived exp
	Multidimensional care/responsibility	Group 1B 3 participants 2 w/lived exp	Group 2B 1 participant 1 w/lived exp	Group 3B 1 participant 1 w/lived exp

12.3.4.1 Relationship

Participants were all over the map regarding the importance of a child's legal/biological relationship to their claimant:

- *Group 1. Relationship does not matter, as long as the claimant is providing the most care/support: 6 participants (4 with lived experience)*
- *Group 2. Claimants should be legally/biologically related; beyond that, any relationship is fine: 5 participants (2 with lived experience)*
- *Group 3. Parents get meaningful priority over other potential claimants: 3 participants (2 with lived experience)*

Participants in Group 1 simply did not see the claimant's nominal relationship to the child as meaningful. Any adult in the child's life was a potential claimant, provided they were actually the de facto parent:

- *"I hate that it must be a legal parent or step-parent. It should be the de-facto parent."*
— Participant #2

One participant was a non-biological, non-legal father, as his de facto son's father had disappeared, and so he could not legally adopt his child:

- *"Situations like mine — obviously I'm not the only one — where one of the parents has gone missing: it stops you from doing so many other things... I provide everything for*

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this child. I love this child... and in those situations, just because... you can't prove [your legal relationship to the child] doesn't mean that you shouldn't be able to claim him or her.” — Participant #5

This group represented just under half of participants, and fully half of those with lived experience in claiming children.

Participants in Group 2 drew the line at claimants with no explicit relationship. This came up frequently when discussing Scenario #2, regarding bio parent Jordan and Jordan's new co-resident partner Casey. It was thanks to this second group that the grandparents in Scenario 4 and 5 got more votes (10 and 12 votes, respectively) than the non-biological parent in Scenario 2 (7 votes).

- *“It's hard to know whether to draw the line at moving in together as the place that the household is blended, and therefore Jordan's child becomes in some way Casey's child — or whether, like, marriage or some sort of legal agreement or establishment of shared household needs to happen before that makes sense. I think without more information I would say Jordan can exclusively claim the child because it's their child and not Casey.” — Participant #6*
- *“Casey doesn't really have any blood ties or marriage ties or anything. So, to me, that would just be considered charity. You're letting them not work and you're paying all expenses — like, well, sorry, you need to fix that before you can make any legal claim, like a deduction for the child.” — Participant #13*
- *“I would say Jordan, because that's his kid, you know what mean, that's his biological kid, so it's like, why would she [Casey] be able to claim? I understand she pays all the expenses, but yeah, Jordan, for sure.” — Participant #3*
- *“The biological relationship matters more than some of the more financial elements.” — Participant #9*
- *“Casey and Jordan can break up in March. So, you know, there's not a lot of legal bindings to the situation.” — Participant #10*

Participants in Group 3, meanwhile, were strongly biased toward biological parents claiming their children, even in situations where the child doesn't live with the parent and other family members are shouldering day-to-day responsibilities or providing financial support, and even if those other family members were biological relatives. For taxpayers who still gravitated toward the parent, they often articulated a principle that there comes a point the parent explicitly transfers responsibility, in contrast to a family member just temporarily “stepping up.”

- *“[Regarding Scenario #3] I assume the [aunt has stepped up and it's not a legal situation, so I would say the parent... [Scenario #5] I think I'm still going to go with the parent in this one, too. Because, again, sometimes as family members, you step up to do things; that doesn't necessarily mean you get to change up people's rights.” — Participant #9, discussing Scenarios #3 and #5*

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- “[Regarding Scenario #3] Why is the child living with the aunt? What's the aunt's jurisdiction? Like, does the aunt have the decision making authority to make decisions on behalf of this child? I would probably need a little more information, even though my gut reaction is kind of leaning me towards that the parent is responsible for taxes in regard to that child. However, if the parent's not taking care of the child and the aunt has some kind of legal — I don't know if conservatorship is the right word. ... [Regarding Scenario #4] Again, my gut reaction is kind of telling me that the biological parent is responsible here, not necessarily a grandparent.” — Participant #1, discussing Scenarios #3 and #4

One participant who ultimately was better classified as Group 1 did still give voice to the idea of a parent presumption:

- “Of course, biological parents should always have first say. If there's some sort of agreement that goes on with other guardians, grandparents, maybe they receive help.” — Participant #11

This parent-first group was, though, the smallest.

12.3.4.2 Financial versus multidimensional support

Within the bounds of the relationship test, most participants favored a clear-cut financial support test, but some favored a more multidimensional care/responsibility test:

- *Group A. Financial support matters most:* 9 participants.
- *Group B. Care/responsibility are not just financial:* 5 participants.

For the taxpayers who favored a financial support standard, the question was straight-forward:

- “Whoever has the biggest financial influence on the child is the most important thing... Because taxes are about money. So if you are paying the money, then you should get that tax benefit back to you.” — Participant #15
- “It really comes down to who's paying more out of pocket. ... If we were divorced and I was stay at home and I wasn't bringing in any money at all or I was only doing gig work and he was paying child support and it was covering like 90% of what was needed, and it was also helping with utilities and everything else, he should be the one who's allowed to actually claim the children, because he's the one that's financially out of pocket, even though I'm the one doing all the day to day.” — Participant #11
- “The person who's paying the expenses, it's his money, and taxes have to do with money... It should be financial because taxes is based on money, what comes in and what gets paid out, or expenses and stuff like that. So whoever is financially money-wise paying, I think, should get the deduction.” — Participant #4

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As much as this may fly in the face of policymakers' intuitions and experiences, some even contended that a financial standard was preferable because it is *more objective*, and *easier to observe*:

- *"I just feel like there's a lot more subjectiveness with [the question of residency], and how would you report that? It'd probably be hard on families to do that. But you can see physical evidence with child support or the expenses."* — Participant #14

This is not to say that research participants are right on this score; support is in practice prohibitively difficult to observe, a rationale for introducing the residency test in the first place. But it is worth understanding taxpayers' intuitions that it would be an appropriately objective measure.

In Group B, some participants were equally convinced financial support was the right standard, but they felt co-residency was probably the best possible proxy. They argued that in practice, the person spending more time with the child is going to be spending more money on that child, because of the sum of smaller expenses that may not go into a general calculation of financial support.

- *"I'd argue it's whoever the child is living with. You're not calculating how much more toilet paper that child is using and all those little things... At the end of the day, it's whoever provides the most financial support. I think that the person who provides the most financial support will always be who that child's living with, because of all of those tiny little expenses... If you live with a child, it's so many expenses, like there's so many expenses that I don't think most people calculate."* — Participant #7

But some participants in Group B also argued that responsibility for a child is a multidimensional proposition, of which financial support is just a piece, and not the whole picture.

- *"Taking care of a child is not an easy task. Yes, you're helping out financially, but I'm thinking about all the emotional and the investment that it takes."* — Participant #5
- *"Once a parent lives in another state, I'm going to say aunt gets to claim the child, hands down. You cannot put a financial monetary amount on time, and she is spending nine months out of the year caring for this child while the parents are out of state."* — Participant #12, discussing Scenario #3

One participant made both of these arguments, though coming out more on the value of care per se:

- *"I still think that the custodial parent should be the default in a perfect world. If they're providing the most care, they're putting out the most expenses, even if that other parent is paying child support and paying bills. If you put a monetary amount on that person's time... they would be paying way more, like way more in taxes, way more in everything — because you can write down expenses, but so much comes up in raising a child. It is astronomically expensive on a day-to-day basis... But the day-to-day care of*

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another human being is a huge commitment, and that person should have that benefit because they have the biggest burden... I would resort to the parent that provides the most care because I think we can't put a quantitative like price tag on what providing care looks like. Time is money and that is a tremendous amount of supervision and time spent putting kids to bed and taking them to doctors. And there's no financial price tag or payback for that. Care is something that you can't put a price on.” — Participant #12

For all the range of opinion on this question, though, one smaller throughline is clear: participants were far more bearish on residency tests than the current law. Participants either used residency as an incomplete proxy for support, or eschewed it as a consideration entirely. The gulf between participants' rejection of a residency test and the current law's strong reliance on a strict residency test generated most of the differences between participants' intuitions and the law, in practice.

12.3.4.3 No support for defining tax benefits differently; limited support for splitting benefits

Perhaps just as important as what we did hear is what we didn't.

While we heard a lot of different takes about support and responsibility tests, no participant cited the real-world existence of, or suggested there should be, different support/responsibility tests for different benefits. For example, at present, the qualifying relative tests require a taxpayer to have provided for half of their dependent's support,¹³⁸ whereas the Head of Household rules require the claimant to have paid most of the costs of the household itself. Such a distinction never came up in our conversations. More broadly, despite some interest in being able to split the financial benefits across two households, no participant suggested that one tax unit should get certain benefits while another gets other benefits, or suggested they knew this was possible under current law. **Every participant had a one-to-one view: if a household claims a child, they are claiming the child for all relevant benefits.**

There was some limited support, though, for the idea that all the benefits from claiming a child ought to be allowed to be split across multiple households. One participant proposed splitting the benefits throughout all six scenarios, either 50-50, or ideally even according to a formula, though recognizing this might not be feasible in practice:

- *“I think if I were trying to optimize for fairness and not efficiency, it would be something along the lines of...an equation where you put in what your relationship is to the child, how much financially you're supporting them, how much you live with them, and how much you're looking after their day-to-day needs, and then get sort of an output of a percentage.” — Participant #6*

Meanwhile, when it came to the last scenario, of two parents who spend equal time, nearly every participant wanted to split the benefit across the parents, though only about half

¹³⁸ Or 10-50% under a multiple support agreement.

explicitly proposed an explicit 50-50 splitting of the benefits; the rest were satisfied with trading off year by year, or letting the family settle it internally. For one participant, this made him rethink his previous answers, and wonder if a split might have been fairer for earlier scenarios too:

- *“Smarter minds than myself, but you know what, even if it was just 50-50, you know, an even split, that ultimately could be the fairest thing... in the different scenarios that you've shown us. I think having a split benefit would be fair.”* — Participant #10

12.4 Recommendations

Overall, we recommend a regime in which families (broadly construed) have fairly wide latitude within which to decide for themselves (or defer to existing formal or informal agreements) who should claim a given child, and all tax programs follow the same rules. More detailed rules to prioritize competing claimants should exist, but these would only come into play if, empirically, competing claims are actually made. On the implementation side, the IRS will need to make it easier to actually make competing claims, and create a new process to rapidly and humanely identify and adjudicate conflicts. In all, this is a simpler regime; and this simplicity itself facilitates compliance.

This framework is far from our work alone, and builds on and borrows from the work of many colleagues in this field.

This overall framework comes with two meaningful disadvantages: the cost of administering increased conflicting claim resolutions, and an increased potential for gaming (on which more in Section 12.4.7). But the framework would resolve nearly all the problems outlined in Section 12.2.

12.4.1 All tax programs should use a common dependency definition, without programs split across households

We believe that, as much as possible, the dependent definitions for all principal tax benefits should generally match — to promote clarity, match taxpayer intuitions, reduce accidental non-claims, and facilitate cross-domain linkages.

In practice, such harmonization could be achieved in various ways, and the details could well depend on other reforms laid out in the following sections. But, under today's law, harmonization would require some version of the following changes:

- Removing the Form 8332 process, whereby custodial claims are waived for some, but not other, benefits. There should not be a process to elect to split the benefits across households, as 8332 allows. (The proposed child rules outlined below will obviate the need for the 8332 per se, as well.)
- Removing distinctions between HoH Qualifying Person and dependent.

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- Removing one-off carve-outs, e.g., removing the provision whereby EITC waives the qualifying child support test that applies to CTC and other programs (or, similarly, waiving that support test across the board).
 - More controversially, policymakers should end the policy of dependency eligibility varying according to immigration status. In practice, though, given the partisanship of this issue, this change could be hard to implement, with neither immigration hawks or doves interested in ceding ground to the other in order to align on a universal standard.
- Variation across programs may continue to exist in the form of child-specific standards; it is understandable that, for example, CDCTC is only relevant for younger children. Still, policymakers should endeavor to align age tests as much as possible. The gap between CTC available through age 16 and EITC through age 18 (with exceptions), for example, introduces unnecessary complexity, and should probably be removed (though hopefully by increasing the CTC gap upwards or meeting in the middle, rather than by cutting EITC support for older children). If policymakers want to achieve a smoother step-down in support as children age out of the tax system, they can do this in more explicit and tractable ways than by introducing arbitrary and confusing variance across programs.

There are, admittedly, good policy reasons to consider drawing eligibility distinctions across programs. On a theoretical level, as [Goldin and Jurow Kleiman point out](#), different programs have different policy goals (sometimes driven by income phase-ins/phase-outs) that point in different directions. In more practical terms, it is easy to picture sympathetic cases where household splits could make sense. For example, consider a world with universal fully-refundable CTC, and an EITC (as today) with a phase-in; and consider a child whose primary carer is a parent with no earned income, and who also gets significant support from a parent in another household with some earned income. It might make intuitive sense for the first parent to claim the CTC, and the second parent the EITC.

As appealing as these considerations may be, though, we think the preponderance of considerations point toward the simpler approach:

- **If the discussions above have illustrated anything, we hope they have shown that complexity is per se damaging.** It creates administrative burdens, it creates opacity in the minds of taxpayers, and it can generate unforeseen and hard-to-observe problems. Even if a new regime avoided some of the worst excesses of the current system, it could unintentionally introduce new distortions, equally hard to unwind. And even if a new regime only featured limited deviations from simplicity, those limited deviations could easily become a slippery slope toward greater complexity.¹³⁹

¹³⁹ For example, policymakers might feel justified in introducing yet more deviations from a common definition each time they create a new policy. An interesting version of this dynamic arose in the final editing stages of this paper, when the IRS released draft guidance for the new 530A accounts (also known as “Trump accounts”), which introduced a new relationship prioritization for qualified individuals to claim children for purposes of the accounts (adapted from a rule applied to 529A

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- Advocates and policymakers have long sought to promote take-up and reduce burden by creating automatic (or nearly-automatic) cross-enrollment schemes between tax and other public benefits. It is well understood that the difference in household definitions between tax and benefits programs puts a limit on how much integration there can be. What has received less attention is that the balkanization of the child definitions *within tax* is a blocker, too. Suppose tax-benefits automation advocates could wave a magic wand, and conform benefits definitions to tax definitions. Which tax definition would they conform to? **If we aspire to align taxes and benefits on a common definition, surely we must start with taxes themselves aligning on a common definition.**
- Most importantly, **splitting children across multiple returns for multiple programs simply does not match taxpayers' intuitions.** With one exception (discussed below), the idea that different programs might assign dependents to different returns did not come up at all in our user research. This too is consistent with anecdotal evidence from VITA sites, where even parents who have formally filed Form 8332 to cede their claims are often hesitant to claim the non-cede-able benefits they are still entitled to; the idea that benefits might split across returns is just too unintuitive. While the abstract policy logic might point to splitting benefits, such logic does not, we think, survive contact with the real world (especially when the program divergence is driven by income phase-ins and phase-outs which are themselves probably opaque to most taxpayers). We believe the evidence shows that taxpayers think of a child as claimed by one person (or couple), and we would do well to respect the integrity of their intuitions. And while opponents may object here that a handful of user research and anecdotal data does not make the point conclusively, we do at least believe the burden of proof is on anyone arguing for the less intuitive regime.

There is one version of cross-household splitting that came up in user research: as noted in Section 12.3.4.3, when participants considered two separated parents who split child duties exactly down the middle, some said there should be a way to split the children across two returns. Leaving aside for a moment the arithmetic challenges of such a policy,¹⁴⁰ is it worth creating an option for a 50-50 split?

We think the answer is still probably not. Again, policymakers should resist even well-founded deviations from simplicity as a slippery-slope back to large-scale complexity; and, again, the ability to collaborate across domains is compelling. Perhaps most important, most participants were very comfortable with using alternating years to effectuate a split.

accounts). In a world where each benefit already has slightly different rules, it is easier for policymakers to casually create yet new ones for each new program.

¹⁴⁰ Splitting a credit is simple enough in theory, but what if the credit is worth different amounts (due to different income levels) depending on which return claims it? Still more complex, how does one “split” Head of Household status, with all the downstream tax consequences this creates? One possible option would be to calculate the return with and without the dependents, and take the arithmetic average of the two options. But this calculation would be challenging to implement, challenging to explain to taxpayers, and still may not actually map to anything like a 50-50 splitting of the benefit.

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Alternation is a workable solution, already at hand, familiar to nearly everyone, and probably enshrined in millions of legal documents. Even if a true 50-50 split were preferable, is it really preferable enough to be worth overcoming this inertia?

Though this is speculative, we also think the existence of a 50-50 split could create opportunities for foul play in some cases of divorced parents. In a world without 50-50 splits, non-custodial divorced parents who are little involved with raising the children probably often concede they do not have the better claim to the children. But in a world with 50-50 splits, these parents might abusively pressure their ex-partners to split the children, as a fig leaf, painting the split as the fair move, and the winner-take-all alternative as selfish. The existence of a 50-50 split might also raise the question of why there is not a 60-40 split, and a 70-30 split, which would of course fracture and complicate the picture still further.

For all these reasons, we believe the best answer is a world where one dependent belongs to one tax return, and as much as possible, all the benefits on the return follow the same eligibility logic (with the possible exception of age and immigration tests).

12.4.2 Define a permissive class of claimants, within which family decides

Rather than try to identify the single best claimant for a given child, we believe the law should instead define a relatively permissive class of claimants who are allowed to claim a child, within which the family (and/or guardians) get to decide who will claim the child. Any claimant within this class would be considered a valid claim. (The next sections cover what to do in the case that multiple members of this class make conflicting claims.)

We think this is a clear conclusion from our user research on dependency:

- **Many participants explicitly argued for a child's family having meaningful latitude to decide who will claim them.** Such a regime best matches taxpayers' intuitions.
- **Most participants cited divorce decrees or other legal agreements as valid instruments to determine who claims a child; without a permissive claim structure, these allegedly legal instruments would remain legally dubious,** wreaking havoc with families' intuitions.
- **Most participants were not able to distill a universal principle that adequately handled every case; much less did participants agree on what the principles should be.** Even from the small sample size of our user research, we think it is clear that creating a single, determinative standard to adjudicate the best possible claimant in every single case, especially in as large and varied a country as the modern United States, is a fool's errand. Even if policymakers ignore the two considerations above, and seek to specify the single best claimant in statute, this last consideration should give them pause: they will probably fail.
- Finally, despite the above point, even if it were possible to distill a widely-acceptable standard to adjudicate every case, it is quite plausible that such a standard might

not, in practical terms, be administrable, requiring the government to observe and audit complex quantities it is in no position to do. At that point, **the rough proxies policymakers would necessarily resort to in building an administrable system might again fail to attract widespread support or understanding.**¹⁴¹

We also think this basic framework ought to be able to appeal to a range of ideological commitments. For the left, it means the law does not discriminate against non-traditional families, disproportionately families of color, that do not conform to inherited Eurocentric intuitions of family. For the right, it means getting the government out of the business of meddling with families about who is *really* in charge of a child's well-being. For partisans of any stripe, these rules respect the fundamental diversity of family arrangements and lifestyles inherent in a free society. And, finally, for small-c conservatives, it means preserving many elements of the de facto status quo, since many families in practice do decide among themselves, often without those determinations being contested by the IRS.

This basic idea — a more permissive set of claimants, who decide among themselves — is also broadly the framework endorsed by [Goldin and Jurow Kleiman](#).

Of course, the question becomes: How should this relatively permissive class be defined? Here, we do not have a definitive answer, and can picture any of several proposals being valid choices. It is the shape of the solution, more than its precise contour, that we are committed to. Some possible choices:

- **Relationship OR residency.**
 - Note that this would still bar a non-co-resident non-legal parent from claiming a child. This seems in practice like a rare case; in most cases, it seems that a carer without a proper legal relationship to the child is providing their care on the basis of co-residence.
 - In this instance, policymakers should consider widening the definition of relationship to include, for example, cousins.
- **Parenthood OR residency (or, put differently, residency with a carve-out for parents).**
 - This may be a more appealing option for policymakers who find the previous option too broad.

Either of the above scenarios might require an amended residency test relative to the one in 152(c)(1)(B) — “who has the same principal place of abode as the taxpayer for more than one-half of such taxable year.” Such a stringent test ends up causing problems for housing-unstable children who live in each of several households for a number of months. Moreover, providing documentation proving 183 days of co-residency can be challenging even for claimants who pass the test. And, in practice, the regulations implementing the

¹⁴¹ This is, to a degree, the story of the residency test as it exists today. Co-residency plays a significant role in Section 152 in part because it is an observable proxy for support. But taxpayers who favor a support test do not seem to recognize it as such; they, in fact, say they would prefer a true support test.

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provision create various esoteric carve-outs, like temporary absences for certain purposes but not for others. An amended test might allow a dependent to pass if the child lived at the claimant's household *either* for six months,¹⁴² or at least as long as any other home.¹⁴³

Notably, [Goldin and Jurow Kleiman](#) define their permitted sets of claimants much more narrowly than the above proposals. In the scenario of a universal child benefit (with no income requirements), they propose a pure residency test, and only allow non-relative co-residents to claim a child if the parents are not present. We think this definition too restrictive, since it would do nothing to address improper claims in which the residency test is failed, which represent the vast majority of EITC improper claims. In the scenario of the current EITC/CTC, with income phase-ins and outs, they propose (a) parents, (b) co-residents with income above the parents, or (c) non-co-residents who provide support for the child. This definition, meanwhile, is in practice close to the ones we suggest, but it is complex, and relies on a hard-to-explain and hard-to-administer support test, which was intentionally omitted from the early-2000s redraft of the qualifying child definition, specifically for administrability.

Skeptics may understandably object that our proposal would sanction poor targeting, or even coordinated outright abuse. For example, a wealthy family may choose to have their 20-year-old child, who earns a little money from a summer job, claim their 12-year-old child on a separate return, thereby claiming EITC. This is indeed a risk, and policymakers may explore ways to carve out such scenarios without creating undue complexity for the vast majority of claimants (see Section 12.4.7). But we would note that, in practice, the present law is not well understood, and the usually-lax implementation regime means that such abuses are probably possible, today, too. At least in the case of this updated regime, it would be easy for more appropriate claimants to register rival claims (Section 12.4.4), moving the conflict into a domain where it can be correctly resolved.

On the other hand, other skeptics might argue that this is still too restrictive: perhaps there should be no rules at all about who can claim a child, and the government should only get involved in cases of conflict. Such an approach would eliminate the risk of any claimants being ruled ineligible on technicalities. But we contend that this approach is a bridge too far. No taxpayers seem to have the intuition that anyone at all ought to be able to claim a child, and such a radically permissive structure would seem to open the door to foul play. We believe it is possible to create a broad enough set of permitted claimants as to reduce to near-zero the possibility that sympathetic claimants are barred from claiming, without

¹⁴² Policymakers might be inclined to remove this first part of the sentence, and simply allow households where the child has lived at least as long as any other. Such a rule, though, would actually be *more* stringent in some cases than the current residency test. Consider a world where two parents are filing independently, but in fact each spent a large portion of the year living with the child, such that one parent lived with the child eight months, and one for 10 months. Under a 'at least as long as any other household' rule, the eight-month household could not claim the child.

¹⁴³ Such a rule would also obviate the need for explicit workarounds during the year of a child's birth, which are currently required, as a child born in October did not live anywhere at all for more than six months during the tax year.

opening Pandora's box to deeply unintuitive outcomes. At the very least, this permissive structure would be a significant improvement over the status quo. Policymakers could study the impacts and consider whether there indeed are cases that militate in favor of expanding the set of permitted claimants still further.

12.4.3 Tiebreaker rules

Within the permissive set of potential claimants defined in Section 12.4.2, the law must further define how ties will be broken in the case that multiple valid claimants attempt to claim a child.

But we must be clear: these are not tiebreakers in the same way as the current rules in 152(c)(4). The tiebreaker rules in that section generally ensure that there is only ever one valid claimant per child; if a claimant passes the general rules but fails the tiebreakers, they are not a valid claimant. **The tiebreakers we are discussing here come into play *only* if there are, empirically, multiple claimants who pass the general rules *and* make a claim. If there are not multiple valid claimants, these tiebreakers do not come into play**, even if another adult *could* in principle have had a superseding claim. Suppose mom and dad live in separate households and are both, by the Section 12.4.2 rules, valid claimants; suppose further that the tiebreakers proposed here would privilege dad's claim. If mom claims and dad doesn't, this tiebreaker determination is of no import; mom's claim is valid and uncontested.

What should these tiebreakers be? Here we do not have a firm proposal, but rather a series of considerations:

- *The tiebreakers should be determined in conjunction with the resolution process as described in Section 12.4.5.* These tiebreakers will only work if they can be administered well and resolved quickly. A slightly inferior rule should be preferred to a superior rule if it will lead to dramatically faster and more dignified resolution processes.
- *Taxpayers appear to have a preference for precision.* Though the context was slightly different, and this insight is worth confirming in future research, we conclude from our user research exercise showing versions "U" and "C" that taxpayers prefer that the rules be more precise than gestural when it comes to the question of resolving a conflict. A general preponderance-of-the-evidence test based on the child's "primary carer" seems appealing from a policy level, but appears to fly in the face of taxpayers' intuitions. (There is also the administrative concern that a more vibes-based tiebreaker regime could foment, or at least fail to root out, prejudice in adjudications.)
- *Existing legal instruments and agreements should be reflected in the tiebreaker rules.* Though policy wonks may not like it, we believe that child-claiming agreements defined in divorce decrees and other legal agreements are here to stay, and it is better to embrace taxpayers' (understandable) intuition that these agreements are valid than to fight against it. The first line of defense in a reconciliation should be

such a legal instrument. If the instrument supports an unjust outcome, this is unfortunate, but as with any poor legal instrument, the right answer is to amend it, not simply pretend it does not exist. In the long run, dismissal of legal agreements will weaken the perception of justice and the rule of law, not strengthen it. Note, though, that these instruments would only have sway here in Section 12.4.3, in the category of tiebreakers rules. We believe the legal instruments and agreements should probably *not* be allowed to move the claim outside the permissive class defined in Section 12.4.2.

- *Relative income should probably not be a tiebreaker.* Though a relative income tiebreaker makes some sense given the income structure of the EITC and CTC, our user research suggests that a relative income test is deeply unintuitive to taxpayers, who understandably do not see what relative income has to do with the question of who is parenting a child.
- *Tiebreakers should probably be based on a combination of closeness of relationship and amount of care/responsibility/support for the child.* As discussed in Section 12.3.4, opinions differ on the relative import and boundaries of these tests, and a tiebreaker that provides some weight to both is probably most likely to please most taxpayers. We do not, though, take a firm position on how the care/responsibility/support test should be defined.

12.4.4 Implementation; distinguishing tiebreakers from non-conflicts

A policy regime based on a permissive set of potential claimants and tiebreakers among actual claimants naturally requires it to be easy for potential claimants to actually make conflicting claims.

The first step is straightforward: MeF should accept conflicting dependent claims, not just for dependents with IP PINs, but for all dependents. As [one of us proposed in 2023](#), it may be desirable for taxpayers to be warned they are making a conflicting claim before filing their return. In a world where tax filing software may not be able to query the IRS pre-submission about the status of a dependent,¹⁴⁴ MeF could consider a system whereby returns with conflicting dependent claims *are* rejected, as at present — but where the returns can be resubmitted with an override parameter, which would suppress the conflicting-dependent error. This way, taxpayers could be warned about the conflict; they might realize they had sought to claim the child in error, or they might touch base with the other adults in the child’s life and opt not to make the conflicting claim. But, if they want to go forward, they simply have to indicate their intention to contest the claim, and re-submit the return. This resubmission would kick off the resolution process, discussed in more detail in the next section.

¹⁴⁴ Direct File, if it exists, could shortcircuit this clunky process by querying IRS systems during the return preparation process to warn a taxpayer pre-submission if a conflict occurs, as discussed in [Section 2.2.3](#).

But there is a problem: what if the first claimant has already been paid out on account of their dependent claim? Suppose, in other words, that one guardian claims a child on February 15, and another claims on April 10 — but of course, the April claim has not been made yet when the February return is submitted. What should the IRS do in February? There are three broad options, all of them with drawbacks. The following section should be seen as a presentation of possibilities and considerations, rather than a concrete recommendation:

- *Pay the February claim when received; but claw back the money if the April claim ultimately supersedes the February claim.* This option is the most straightforward to implement, and in many ways is most reflective of how the tax system works in general — accepting claims at face value until there is evidence of a problem. But it opens up the possibility of widespread clawbacks, which could be financially damaging for many taxpayers. They could also be quite unpopular, tending to undermine trust in the new regime.
- *Pay the February claim when received, and privilege this claim over future claims, so it is hard to override and hard to claw back.* This option, though, is not in keeping with the proposed new statutory framework, and persists with the current problem of implementing a de facto first-come-first-served system without basis in law.
- *Hold the February claim for some set of February claimants, leaving time to find out if another contested claim will come in.*¹⁴⁵ In particular:
 - Define an easy-to-understand set of child claims that are likely to be contested. These might be claims by first-time claimants; claims on children who were subject to conflicted claims in the past; and claims by non-parents (with parents defined via SSA Enumeration-At-Birth data held by IRS).
 - One statistically appealing option would be to define this risk probabilistically, on the basis of a number of different risk factors and a prediction algorithm. This would probably more accurately identify the set of likely-conflicted claims. However, we believe such a system would be less effective in human terms. It is one thing to tell a taxpayer the claim is being held because they are a first-time claimant. It is much another to say the claim is being held because of the output of an opaque, uninterrogable, and maybe even biased black-box algorithm. As such, we prefer ‘risky’ claims being defined according to a few simple and human-readable rules.
 - If a claim is classified as ‘risky,’ the IRS would recalculate the return as if no dependents were claimed, and issue any remaining portion of the refund immediately.¹⁴⁶ The IRS would explain in plain language to the taxpayer the reason the child claim is being held.

¹⁴⁵ This section is written under the supposition of up to two conflicting claims. There may, of course, be three or more. The logic can be extended to these scenarios by analogy.

¹⁴⁶ Direct File’s tax logic engine would be very helpful in making this calculation.

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- Once April 15 comes, if there are no other claimants, the original claim is treated as valid. Given the refund delays implemented in the PATH Act, this would have the effect of delaying payouts by up to two months for some taxpayers who choose not to take follow-up action.
- There could, meanwhile, be additional optional procedures for taxpayers who do not want to wait until April 15.
 - One relatively simple possibility would be that taxpayers making ‘risky’ claims can optionally submit additional documentation with their return, substantiating that they are the only valid claimant. A challenge here, though, is that the statutory regime we propose makes it very hard for a taxpayer to conclusively prove they are the only valid claimant. The taxpayer could prove they meet the qualifications to be in the permitted class, but this does not prove that no one else meets them, or that their claim would beat another’s in the case of a tiebreaker.
 - Another possibility is that the earlier claimant would have the option of pre-indicating their intent to claim through some sort of pre-certification process. Prior to January 15, for example, they could document their intent to claim, triggering a communication to all other potentially-impacted taxpayers to register their own intent by February 15. If two taxpayers intend to claim, both claims are held until they are both received. If only one intent-to-claim is filed, the claim can be paid out on February 15 (the earliest that child claims are paid under the status quo). This option, though, requires taxpayers to take an action before the filing season starts, and also does nothing to protect guardians whose attachment to the child is not yet known, who would not be reached by the IRS’s pre-season communication. So, while it would protect a guardian who claimed the child in the past, it would not protect a guardian who is newly in the picture this year.
- Meanwhile, a corollary to the above point about April payouts is that taxpayers would at least partially lose their ability to make contested claims after April 15. Taxpayers might either be barred from making the claim outright (unless they allege that the earlier claimant was not in the class of proper claimants at all); and/or they may have to go through a more complex process to make the claim; and/or there would be a thumb on the scale in favor of the earlier claimant for a late dispute. A similar consideration applies to later (but still pre-4/15) contested claims where the earlier claim was not determined to be risky.
 - To avoid compromising taxpayers’ right to request an extension, they would need to be permitted to register an intent to claim either through filing a full return or as part of an extension request.
 - To reduce the risk of the post-4/15 taxpayer’s rights being compromised, the IRS may send a notice to any other taxpayers with a

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documented connection to the claimed child, noting that a return has been filed claiming their child, and reminding them to file on time if they want to lodge a dispute. These notifications, though, would be subject to the same drawbacks as the intent-to-claim communications discussed above.

Some may look askance at this entire section — requiring, on one hand, some taxpayers (who may be badly in need) to wait longer for their refunds or be subject to clawbacks, while also curtailing the appeal rights of certain late claimants, who themselves may be sympathetic. We believe, though, that some balance must be struck between the rights of the earlier and later claimants. There is no option here that affords maximum rights to all parties; any possible solution weighs the rights of one party against the rights of another, and we believe policymakers ought to strive for a reasonable balance. Policymakers should also keep in mind that the status quo puts a very heavy hand on the scale in favor of earlier claimants — and runs the risk of clawing back funds for a wide range of reasons less sympathetic than the ones envisioned here.

Depending on the details policymakers land on, the statute defining valid child claims may need to take this section explicitly into account, ensuring that claims are retroactively defined as absolutely valid on the basis of these contingent procedural actions.

12.4.5 Resolution process

The rubber fully meets the road in the question of what the IRS actually does when it receives multiple valid claims for the same child, and must identify the best claimant. The details of this process will, again, interact with the precise tiebreakers laid out in Section 12.4.3. But, we can outline some of the key principles:

- **Taxpayers should be able to go through this process online.** A few decades into the 21st century, it is unacceptable for dependent dispute processes to be a snail-mail-only affair.
- **As at present, the first step in the resolution would be to give both taxpayers the opportunity to rescind their claim — and indeed encourage them to do so.** This proposed system is built on the supposition that, often, families can and should decide whose child is whose. The IRS ought to encourage both (or, if more than two, all) claimants to communicate with their family members, if possible, and come to an understanding. The communications with claimants at this stage would also explain how the conflicting claims would be adjudicated, thereby helping taxpayers informally understand who is more likely to prevail, again as a way of encouraging amicable settlement without having to go through the onerous and administratively costly resolution. The process only continues if multiple claimants double down.
- **For taxpayers in general, and for those who are proceeding with a resolution in particular, the IRS should communicate clearly about what the process entails and how long it is expected to take.** The IRS should set a humane standard for how long a resolution generally takes (perhaps 90 days), and publish data about how long

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resolutions are, in fact, currently taking. Taxpayers with a live resolution should be able to view the status of their process in their taxpayer account online.

- It will also be critical to determine what recourse taxpayers have to appeal any decisions of the resolution process.

Note that most of this section is relevant even if the dependent laws remain entirely unchanged from the status quo. The proposed changes in earlier sections would increase the frequency and import of resolutions, but even today hundreds of thousands of dependents are subject to dispute resolution every year, and those claimants deserve a better process and more transparency.

12.4.6 Enforcement and reporting

To restate the obvious, in this new regime, any claimant within the new wider set of valid claimants would be considered a proper claim under IRS enforcement and reporting. Even if another household might, in principle, appear to have a stronger claim to the child, the claiming household would be considered a proper payment, and the non-claiming household would not be considered an underclaim. Improper claims exist only when the claimant is not in the broader group of valid claimants, and underclaims exist only when no one claims a particular child; in this latter case, it is the most likely claimant household who would be deemed to have underclaimed, and no other household.

The IRS should, especially in early years of the new regime, track and report on the details of the child claiming process. How many children are subject to conflicting claims, and how does this compare to the previous regime? How long do the resolution processes take, and are there any patterns in how they are resolved? How frequently does the IRS pay out a claim that is later contested by another claimant? Relatedly, how frequently do ‘risky’ claims attract a second, conflicting claim *before* the first claim is paid out (and can the risky claim rules be amended)? How frequently do conflicting claims come in after April 15? But it is critical to separate these reports from any present notion of improper payments or underclaims. This would be a new analysis under a new system.

12.4.7 Considerations regarding gaming

As noted above, this regime does admittedly increase the capacity for “gaming.” How much of a problem is this?

We would first of all encourage policymakers to take seriously the findings in Section 12.2.2.3 and Section 12.3.3.2: plenty of “gaming” is very sympathetic, some of the most egregious cases of gaming are not quite what they seem, and taxpayers widely do not appear to perceive such gaming behavior as nefarious or immoral. Are we talking about bad actors perpetrating fraud against the United States or just families figuring out together how to raise their children?

Policymakers might also consider whether they can amend the tax law to remove gaming incentives. A flat child benefit separated from a work incentive would reduce the incentive

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to game. Perhaps less controversially, the EITC currently maxes out at three children; if EITC continued to increase at arbitrary margins of number of children (like the CTC), it would remove the incentive to game for fourth and higher children.¹⁴⁷

We would also encourage policymakers to recognize that there are many unknowns about the prevalence of gaming even under the status quo — and still more under the prospective new regime. Policymakers could consider first observing and researching gaming under the new regime before considering passing any amendments.

If policymakers were to introduce anti-gaming measures into the new regime, a couple considerations about how it might be done:

- The concrete restriction most likely worth making would be to limit the permissive class in the case where there exists a custodial parent earning more than a certain threshold — perhaps \$100,000. This would prevent wealthy taxpayers from creatively claiming the EITC by, for example, assigning a younger child to an older sibling just getting started in the labor market. Social Security data and prior-year return data would make it feasible for the IRS to detect cases where wealthy parents had likely shifted their child claims in violation of this rule. Taxpayers, meanwhile, likely have a pretty good intuition of whether there is a custodial parent in the picture earning over \$100,000. But the high income limit means — intentionally — that the much more sympathetic low- and middle-income “gaming” we discussed earlier would be permitted.
- Especially given the unknowns about gaming under the new system, Congress could grant the IRS authority to issue rules limiting the permissive class of claimants in order to achieve specified policy objectives. This would allow the IRS to make adjustments responsively based on empirical issues in the system, more easily than through an act of Congress.

In any of these cases, though, policymakers must be careful not to simply end up back where we started. If the government knew exactly who the optimal claimant was in every case, we could write rules defining that claimant. The trouble is, as this whole chapter has shown, we are not able to do so, and policymakers must take seriously the implications of a more laissez-faire system. Anti-gaming procedures, if they are needed at all, should be easy-to-understand, minor carve-outs, designed to prevent the worst abuses; policymakers should not get themselves on the slippery slope back to re-inventing the determinative tiebreaker rules of 26 USC 152.

12.4.8 Alternatives

Developing a perfect dependent regime is challenging, and surely many readers will find portions of this proposal unconvincing, becoming tempted to keep the status quo

¹⁴⁷ The incentive to game kicks in to a degree before the third child, since the marginal payment for second and third children are increasingly small.

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unchanged. To these readers, we simply reiterate a handful of the aspects of the status quo, each of which we think badly unstable and fundamentally unacceptable:

- Widespread existence of divorce decrees — understood by judges and taxpayers alike to be legal documents — that in fact violate the tax law.
- Taxpayers being subject to audit, having funds clawed back, and perhaps becoming banned from claiming the EITC or CTC for up to ten years, for claiming a child under a process they thought valid — perhaps even on the advice of a judge or a divorce lawyer.
- A stubborn crisis of overpayments, engendering a variety of onerous bureaucratic “solutions” that do cause taxpayers headache and burden, without of course solving the alleged problem.
- The inability to actually close the stubborn tax benefits coverage gap, due to the intractable and probably at least in part illusory population of alleged non-claimants.

Finally, there is the rampant misunderstanding of the current system. Despite the current rules being in place for over 20 years, understanding of them is relatively sketchy, and policymakers have not succeeded in making taxpayers understand. Even widespread audits and negative consequences have not gotten people to think about the situation ‘correctly.’ Even if policymakers think there are abstract benefits to the more complex status quo, at what point will they throw in the towel and concede that taxpayers cannot be brought around to it? How many more taxpayers need to be audited in service of bringing the culture around to a definition of child it does not accept?

13. Additional tax filing assistance

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Summary

- Policymakers have not articulated coherent goals when it comes to high-touch, hands-on tax filing assistance. Do all taxpayers have the right to free assistance more involved than DIY filing? Only some taxpayers? If so, which? We contend, at a minimum, that as long as publicly-funded high-touch hands-on assistance remains relatively limited, it should be targeted to those taxpayers with the highest needs. (13.1)
- The IRS and/or other tax access stakeholders should explore the creation of additional levels of public tax preparation assistance between the extremes of DIY tax filing with chat support (Direct File), on one hand, and full-service, someone preparing your return for you (VITA), on the other. It is possible there is a use case for additional models between these extremes. (13.2)
- The IRS should manage a centralized front door expediting access to all publicly-supported tax filing services, helping taxpayers understand their options and find the one that is right for them (13.3). Moreover, Direct File should be expanded to support additional levels of service, such that most taxpayers can get started with their return on Direct File and be routed dynamically to the appropriate level of assistance they need, should live chat turn out to be insufficient. This means, for example, a half-finished Direct File return could effectively become a digital VITA intake form for taxpayers who find themselves unable to complete the return alone (13.4).
- VITA program rules should be amended so that programs are judged not on the total number of returns they prepare, but rather on how well they do at engaging specific hard-to-serve populations with specific hard-to-prepare returns — and at helping taxpayers, perhaps over the course of several years, achieve self-sufficiency in filing.

These changes will help ensure that limited VITA capacity is focused on those things that only VITA can do. (13.5)

This section explores tax filing services more intensive than DIY online tax filing — most prominently, high-touch services in which a tax expert prepares a return on behalf of a taxpayer, which the IRS currently offers via the Volunteer Income Tax Assistance (VITA) and Tax Counseling for the Elderly (TCE) programs. While the theory, practice, and strategy of a public DIY tax filing tool (Direct File) are fairly well understood at this point, there is far less unified strategy surrounding more hands-on services for higher-need populations.

Section 13.1 lays out some philosophical issues regarding such higher-touch services and ambiguities in the IRS's strategic goals in this domain. Section 13.2 explores what service models might exist other than DIY (Direct File) and full service (VITA). Sections 13.3 and 13.4 propose an integrated service delivery mechanism that would allow taxpayers to dynamically find the level of service that is right for them from a centralized front door. Section 13.5 discusses reforms to the VITA program that could effect better targeting of limited assistance resources.

13.1 Philosophical issues

The premise of Direct File is that taxpayers are entitled to a simple DIY product that makes tax filing as easy as possible. **But do all taxpayers have the right to additional hands-on assistance? Should every taxpayer be guaranteed access to a tax expert accompanying them through the process of doing a return, or even preparing the return for them? If so, do all taxpayers have this right, or only some taxpayers?** Conversely, is it appropriate that some taxpayers may pay for assistance? Put differently, should it be seen as per se a problem if some taxpayers *do* choose to pay preparers or accountants to file their returns?

Separate from the question of legal rights, there is a slightly distinct question of goals. Perhaps, regardless of whether assistance is available or whether a taxpayer can afford it, we might have an aspirational societal goal of self-sufficiency in the tax system. Often, taxpayers seek assistance because of their belief the tax code is too complex for them, and that they need an expert to navigate it. Indeed, one of Direct File's impacts was to begin to break through this; [Code for America reported](#) one taxpayer said "At age 67 this was my first time filing my own taxes, and I was scared to death but this made it so easy. I was so proud of me!" Does the government have the goal per se of helping taxpayers become confident and self-sufficient regarding their taxes?

Even if there is not an interest in promoting self-sufficiency per se, there is the empirical fact that [a very large portion of LMI taxpayers currently engage paid preparers to file their returns](#). The impact of something like Direct File will inherently always be limited if a majority continue to feel uncomfortable using DIY tax software, and continue to pay tax preparers.

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Perhaps we might say that some taxpayers are entitled to additional assistance, due to particular barriers, though not all. But in this case, how are those taxpayers prioritized? And do we expect taxpayers to eventually “graduate” from higher levels of assistance to something approaching self-service, so that the resources are available for new high-need populations?

We lay these questions out in detail to highlight simply that the answers are not obvious, and Congress and the IRS could come to various conclusions about them, which would, in turn, imply different courses of action. We believe it would be worth it for Congress and/or the IRS to articulate a view on such questions.

Retreating slightly from a place of abstraction, though: broadly, our view is that taxpayers deserve a system that is accessible to *everyone* without assistance, and the IRS and Congress should be working toward this goal, by simplifying the code and providing products like Direct File and the year-round product discussed above. However, as we are a far cry from such a world — and indeed may never fully get there — **we owe more hands-on assistance to those populations that are most at risk of falling through the cracks without additional support.** While it is not clear exactly how much additional government-sponsored hands-on assistance the IRS must offer, it is clear that this assistance should be targeted at those who most need it, so that we are using it to address our system’s accessibility/equity flaws. (This means, conversely, that taxpayers do not per se have a legal *right* to additional assistance. People who do not properly belong in the priority population can pay if they *want* this assistance.)

The IRS essentially provides for high-touch hands-on assistance for a couple of million taxpayers, via VITA and TCE. In other words, consistent with the above framework, the IRS has resources for a *small share* of taxpayers to receive hands-on assistance: about 2-3% of low- and middle-income filers.¹⁴⁸ (In a Direct File world, this service was supplemented by DIY filing for as many taxpayers as want to use it.)

Finally, given that hands-on support is expensive and limited, we also ought to develop a system that makes it easy for taxpayers accustomed to hands-on assistance to switch over time to DIY filing, softening the perceived difficulty of this transition, both for those users of free government-provided assistance, and for the many users of paid assistance.

The following sections are formulated under the assumption that this basic framework remains the same, and that **the goal is to ensure this higher-level assistance is targeted at those taxpayers who most need it — dovetailed with the concurrent goal of graduating those taxpayers off that assistance, both in the inherent interest of self-sufficiency, and in the interest of freeing up limited assistance resources.**

¹⁴⁸ We do not include LITCs here, as this pertains to a different set of legal rights.

13.2 Explore creating additional levels of service

In the Direct File world, the IRS offered relatively low-touch filing experiences (DIY filing, and DIY filing with limited live chat assistance, via Direct File) and very high-touch filing experiences (full tax preparation via VITA/TCE). (In VITA and TCE,¹⁴⁹ the VITA/TCE volunteer literally prepares and submits the return on the taxpayer's behalf, based on information provided by the taxpayer.)

There is, conceptually, a large gap between these extremes, and it is worth considering whether there is a missing middle. Should there be government-provided offerings between these extremes — both to better meet taxpayers where they are at, and to effect easier transitions between the disjunct government offerings? Private tax prep companies, for example, often offer **a service where the taxpayer self-prepares their return, but can have an expert review it for accuracy before submission**. This is less hands-on than full tax prep (a la VITA) but more hands-on than DIY filing. There may be other viable intermediate service models, as well, such that the IRS could eventually provide a spectrum of services:

- DIY filing (Direct File)
- DIY filing with chat assistance (Direct File)
- *Additional models*: DIY filing, with expert review before submission? DIY filing with expert consultation?
- Full-service filing (VITA/TCE)

More research is needed to determine whether there is a compelling need for government to provide such intermediate services, and what shape they would take. We limitedly explored this question in our user research sessions, but we were not able to collect conclusive feedback in the abstract; more hands-on and involved user research, prototyping, and testing would probably be needed. It is also worth considering intermediate services specifically in the context of ‘graduating’ taxpayers from VITA or other hands-on assistance modes into lower levels of service, an idea explored further in Section 13.5 below.

13.3 A centralized IRS-run front door to additional IRS assistance

One benefit of Direct File is that, as it is a public tax filing option, official tax filing outreach communications can unambiguously direct taxpayers to it. Direct File thereby becomes a centralized front door for tax filing — making the tax system less overwhelming, and more accessible and navigable.

There is no such IRS-run front door, though, for additional assistance services (which is to say, at present, for VITA/TCE). There is a VITA site locator on the IRS website, but it can be

¹⁴⁹ This is true for *traditional* VITA/TCE filing; there is an exception in the relatively small facilitated self-assistance program.

hard to use, its data is not always up to date, and it is advertised quite separately from other filing services. There is a public interest digital product [GetYourRefund](#), built by Code for America, that serves as a centralized digital front door to VITA programs, allowing taxpayers to complete their VITA intakes and be routed to a site to complete their returns. But GetYourRefund is not owned or managed by the IRS — much less is involvement with it a requirement for VITA programs, many of whom do not use it at all.

We believe there ought to be a centralized IRS digital front door to these higher-touch services, helping taxpayers understand the options available to them, and making it easy to get started. In the simplest terms, this is a landing page, e.g., [irs.gov/file](#),¹⁵⁰ that lays out a taxpayer’s filing options and makes it easy to get started. In the current world, this means the IRS operating a GetYourRefund-esque service, with online intake and with a reliable easy-to-use site locator, for VITA/TCE access. In a world with other levels of service — including Direct File — the IRS front door would manage access to those as well. Centralizing this access will help triage the right taxpayers to the right services, and make it easier for those taxpayers who need more help to find it.

13.4 Access to additional assistance resources should be mediated dynamically via Direct File

Even if there were a centralized access point for these different filing assistance options, there would still be the question of how taxpayers pick which service they need, how to assist them in this service, and what overlap exists between the different levels of service. What if a taxpayer does not know off the bat how much help they will need, or is overwhelmed by the various options themselves? What if a taxpayer starts a DIY return and then gets stuck, most of the way through, at a question they do not know how to answer?

We tried to get at these questions in our user research, asking taxpayers questions about how they determined what level of assistance they needed, and where they might turn if they needed more. Given the population of taxpayers we were speaking with, none of whom had in fact recently struggled to file a return, this line of inquiry did not yield any clear insights.

But we have anecdotal evidence¹⁵¹ from VITA volunteers’ experiences that many taxpayers don’t really know what level of service they need until they start filing — which stands to reason, since any challenges a taxpayer faces tend to come up *during the filing process*. As such, it would be counterproductive to make a taxpayer pick, before they start, which level of service to use. Better to default to DIY filing with the option to access more help if needed.

¹⁵⁰ Such a page currently exists on the IRS website, but does not lend itself to understanding filing options, choosing the right one, or getting started.

¹⁵¹ We do not know of more rigorous evidence for this claim, but it would be interesting to collect.

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Moreover, it is self-evidently wasteful from a technology perspective to have different tax filing tools exist separately from one another. As it is, for example, large portions of Direct File and GetYourRefund are significantly duplicative. Why solve twice the problems of account management, of phrasing complicated questions about tax situations, of linking out to additional resources, and of providing in-app support, when they could be instead solved once?

We believe the answer is that Direct File should eventually scale to support a laddered system of service levels. No matter who you are and how much additional assistance you think you want, you can start your filing journey with Direct File. As you go through the filing process, if you find you have the information you need to complete your return, you file yourself (traditional DIY Direct File). If you find you're stuck and need more help, you could be routed to additional service, or even to full-service tax preparation via VITA/TCE; the answers you provided while using Direct File would become your VITA intake, as in GetYourRefund.

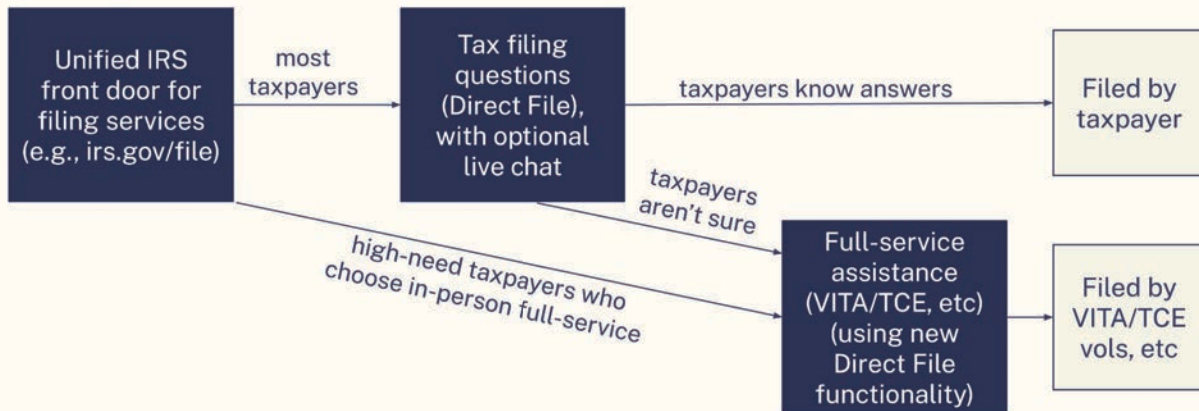
Such a world would require significant new functionality from Direct File. The product, for example, might create the option of selecting 'not sure' in response to certain questions. The product would need a notion of branching between the different service paradigms. And it would need functionality that would allow VITA volunteers to directly see the data taxpayers have entered, make corrections, and submit the return on the taxpayer's behalf. **This would be a big step for Direct File, and any such functionality would certainly be several years out in the road map. But we believe it is the right goal to target.**

Ultimately, this would create a world where Direct File and additional assistance resources are tightly interoperable. Direct File can determine that a taxpayer requires VITA/TCE assistance and route them directly to a VITA/TCE program. Conversely, VITA/TCE programs could use the same platforms to help taxpayers graduate back to DIY filing.

This integrated model of laddered service levels would also greatly simplify the task of the centralized front door discussed above. Some taxpayers might choose to get their tax assistance in person, and the landing page would still help those taxpayers find a VITA/TCE site. But for most taxpayers, they would simply get started using the integrated Direct File functionality and be routed to appropriate additional assistance as needed during their filing process. Such an experience would also make the transition more welcoming for the many LMI taxpayers who might otherwise struggle to make the jump from paid preparers to something like Direct File. While such taxpayers might be anxious to leap into a self-prep process, they could be reassured that the process will route them to as much hands-on assistance as they ultimately need.

At its most basic, the system would look something like the chart below. A system with additional intermediate levels of service, as discussed in Section 13.2, would be slightly more complex, but still follow the same basic principles.

Triaging Access to Assistance



13.5 VITA program rules and incentives

To the extent some taxpayers are entitled to free high-touch tax filing assistance, the obvious way to provide it is via the VITA program, which has provided such assistance to low-income taxpayers for 50 years — about two million annually in recent years. Two million is a drop in the bucket of the ~75 million tax filers below median income; but two million is a big number relative to the number of taxpayers who have particularly high barriers or especially intermittent filing histories.

That said, historically, VITA's targeting at the most marginalized taxpayers, as well as its ability to move taxpayers to greater levels of self-sufficiency, has been very limited. VITA sites almost exclusively serve lower-income taxpayers — but within this very broad category, they do not necessarily serve taxpayers with especially high needs.

The problem, of course, is not mission alignment: VITA programs and the volunteers who staff them believe strongly in tax access, and in ensuring the neediest people can access their refunds.

One reason for the lack of targeting is that, in a pre-Direct File world, VITA was often the only reliably free game in town. There was no *other* free official tax filing option to send taxpayers to, and VITA programs often became the de facto standard free option for low-income taxpayers. In such a context, it was natural for VITA programs to be badly oversubscribed, and simply serve people, first-come-first-served, as they walked in the door. Many programs conduct limited or no outreach, as repeat customers and word-of-mouth easily satiate the limited supply of services.

But another reason, one that VITA programs often speak plainly about, is the design of the programs' incentives. VITA programs are usually judged on one principal metric: the number of returns they prepare, also known as Minimum Returns Expected, or MRE. Tax preparation is hard work, and VITA grants are critical, so program administrators understandably tailor

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their work to optimize for this metric. Seeking out taxpayers experiencing homelessness to prepare their returns is time that could be spent preparing many other easier returns at the office. Encouraging and teaching a taxpayer to file using a self-help tool is time that could be spent preparing their return. **VITA sites are genuinely incentivized *not* to target their work at the program's broader goals and not to triage low-need taxpayers to other filing options.**

The VITA program office has, to its credit, often sought to find ways around this problem. The office, for example, encouraged sites to count toward its MREs those taxpayers that they referred to GetCTC in 2021 and 2022, and to Direct File in 2024 and 2025, and who therefore went on to file. But such efforts were bandaids at best.¹⁵² **If VITA's goal is to serve the hardest-to-serve taxpayers and move them to self-sufficiency, the program's official metrics should straightforwardly reflect this.** In the long run, there is simply no reason for the program office to be patching end-runs around its own rules.

While the details of an updated grant regime ought to be worked out carefully in collaboration with the grantees and the program office, the overall shape of the reforms is clear:

- VITA programs should receive **additional credit for preparing returns for specific target populations**, or with specific complexities. These may include:
 - Taxpayers who have never filed, or have intermittent filing histories.
 - Taxpayers whose returns have known complexities, like multi-generational households, non-standard self-employment income, or Advance Premium Tax Credit reconciliation, to name a few possible examples.
 - Taxpayers without English proficiency.
- VITA sites should be **explicitly instructed and incentivized to help their clients move to self-sufficiency**: sites should receive **more credit for newly recruited taxpayers**.
- VITA sites should be **judged on their use of the IRS's newly-designed triage/referral systems discussed above** (Section 13.4), once they exist, thereby ensuring that sites are actively helping ensure taxpayers find their ideal level of service.
- The total number of returns a VITA site prepares would be expected to *decrease* under this updated regime, as the programs are being incentivized to prepare harder returns, and to do additional triaging work which may depress the number of returns they directly file.

Taken together, such reforms would incentivize VITA programs to serve the hardest-to-serve taxpayers, those who otherwise might never get their refunds. Put

¹⁵² This guidance was also not always easy for VITA sites to follow. Especially in the Direct File years, the guidance tended to arrive late in the planning for the tax season, and without any systematic solution as to how sites should count these newly referred returns, logistically or technically. In some cases, probably in part owing to the ambiguity of the operational logistics, local managers who interact with VITA sites directly did not fully endorse the new rules, leaving sites facing conflicting information.

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differently, **these reforms would stop pulling grantees in a direction that differs from the grantees' own, and the program's own, mission. They would liberate the VITA programs to do the work they joined the program to do, and that the IRS needs them to do.**

These changes could be implemented without statute; [the controlling VITA statute](#) does not in any way require MREs to be the program's principal metric. That said, Congress could certainly expedite the changes by mandating them in a bill clarifying the mission and goals of the VITA program.

As a related point, a far lower priority for Congress in achieving these goals is an increase in VITA funding. The principal bottleneck in VITA capacity is by far not funding; it is volunteers, and increased funding does not solve the problem of limited volunteer capacity.¹⁵³ More to the point, even if, counterfactually, doubling the funding somehow did double the number of returns prepared, even 4-5 million returns would still be a drop in the bucket compared to tens of millions of low-income returns prepared every year. Growing VITA's capacity is not the best way to make it a more effective part of the tax preparation ecosystem. **What will make a difference is making sure we use the limited capacity of VITA to truly do what VITA does best — serving the hardest-to-serve taxpayers, as only VITA can.**

¹⁵³ We are not aware of large-scale proposals that might drastically change the picture in terms of volunteer supply, but, if they exist, they would be the best way to increase capacity. The VITA program has had a long relationship with the AmeriCorps program, and certainly investment in such service organizations could help increase the availability of volunteers.

14. Non-filers: better data, a post-April focus, a dedicated team, automated second-best returns, and simplified filing

Gabriel Zucker, Chris Given¹⁵⁴

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¹⁵⁴ This chapter is informed by user research led by Allison Abbott.

Summary

- In this chapter, we define *true non-filers* as those taxpayers who either must or should (to get a refund) file, who remain non-filers even when the distortions induced by dependent rules have been eliminated from the analysis (see [Chapter 12](#)), and who remain non-filers even once Direct File has been scaled up as a free and easy option.
- Though the IRS may embrace some extraordinary special measures to engage non-filers, the paramount long-term goal is always that taxpayers ultimately file a standard full return. Thanks to the fundamental parameters of the U.S. tax system, only a full return can guarantee that taxpayers are getting the complete benefits they deserve from the tax code. (14.1)
- Because of the subtleties and unknowns in engaging non-filers, our best recommendations in this section concern not specific programmatic interventions, but rather organizational ideas: meta reforms that create a fertile environment for closing the non-filer gap. (14.2)
 - The IRS needs better internal and external data on the non-filer population. Internally, the agency needs a by-name list of (likely) true non-filers, to target interventions and measure success. Externally, it needs to publish credible aggregate-level estimates of the size and characteristics of the non-filer population, to track success and guide third-party efforts. (14.2.1)
 - The IRS should establish an ecosystem-wide practice of engaging non-filers after April 15, thereby splitting the filing season into a traditional season (January-April) and a non-filer period targeted at those remaining (May-November). This approach would allow messaging and interventions to be better targeted at the right taxpayers; it would take advantage of the additional confidence the IRS can have in its own data later in the year; and it would better spread capacity across the year. (14.2.2)
 - The IRS should create a Non-Filer Team whose dual mandate is to get non-filers as much of their refund for recent tax years as possible, while also setting them back on the path to full filing in future years. The Team's interventions should be run as randomized controlled trials, so they can quickly learn what works and iterate. For a variety of reasons, such a team inherently has to exist at the IRS, rather than at a third-party organization. (14.2.3)
- The Non-Filer Team's mandate would be to experiment and figure out what works. We discuss a few of the ideas they may explore implementing. (14.3)
 - User research suggested that many taxpayers do not know they can file late, and a mere reminder of this fact could be helpful in moving the needle. Taxpayers also appeared universally enthusiastic about the idea of the IRS sending reminders to file, the type of thing they generally expect institutions in their life to do (14.3.1). There are a handful of design issues to resolve regarding any such notices (14.3.2).

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- The IRS might also consider sending automated “second-best” returns to true non-filers during the second half of the year. Despite the general principle that taxpayers should file full returns, the agency might conclude that something is better than nothing for taxpayers who otherwise might not file at all (14.3.3). Taxpayers, though, were split about this idea in user research (14.3.3.2), and it is not entirely clear if there is a promising implementation here that does not collapse back into a Direct File referral (14.3.3.3).
- The Non-Filer Team may also explore collaboration with VITA to target true non-filers. (14.3.4)
- *Simplified filing* is a term of art defining a niche alternate filing process whereby filers with functional-zero income (low enough that they are not required to report it, and that they are not eligible for any credits which depend on the precise amount of their income) might file without reporting any income whatsoever. Unlike in 2020-2022, the current federal tax code has no provisions that would occasion simplified filing, but even if it did, we believe it would not be worth pursuing a standalone simplified filing solution; better to streamline the standard Direct File pre-populated filing pathway as much as possible than to create competing pathways to file. In the case where states have use for simplified filing, we still believe it would be more productive to funnel those taxpayers through non-simplified Direct File. However, in a world without Direct File, relevant states may pursue their own limited standalone simplified filing products. (14.4)
- States may consider creating their own Non-Filer Teams along the lines discussed in 14.2.3. These Teams could target the additional population of taxpayers who file federal, but not state, returns. (14.5)

Much of the energy of the tax access space has, naturally, focused on non-filers — people who don’t file returns and thereby leave money on the table. This chapter is about steps the tax agency can take to reduce the incidence of non-filing. But we take a perhaps unique approach to bound the issue.

First, the re-alignment of dependent rules discussed in [Chapter 12](#) is critical to this project. As discussed there, we believe portions of the non-filer population may not be what they seem, due to the misalignment between dependent laws and everyday Americans’ understanding of them. What appears to be a large population of non-filer families with children who might be due huge refunds may actually be childless adults due quite small refunds, or who have no reason to file at all. And tax units that are not required to file, and do not stand to get refunds, are not who we are looking for here: they are not, we might say, *true* non-filers. Fixing this disconnect might mechanically eradicate a meaningful portion of the non-filer population overnight — *especially* those with kids. We speculate there are already likely relatively few true non-filers with kids, and if the definitions were realigned, we would see that the true non-filer population remaining is largely single childless people, probably young taxpayers. This assumption is central to our analysis. **We**

do not expect that these interventions will be targeting tens of millions of taxpayers, who leave tens of billions of dollars on the table. Rather, we expect we are targeting somewhere on the low end of single-digit millions of taxpayers, leaving hundreds of millions of dollars unclaimed.

Second, the expansion, improvement, and promotion of Direct File is critical. [User research suggests](#) that much of the remaining non-filer population finds tax filing daunting due to the choice overload of filing options, and its general expense and difficulty. Therefore, Direct File's expansion, we believe, will mechanically address another large chunk of the non-filer population even without any other specific reform measures. We should not be looking at using non-filer special measures for people who simply need a free official filing tool.

So in this chapter, we think about non-filers as the people who must or should file¹⁵⁵ that are left after the above reforms, and we are focused on the kinds of extraordinary measures that might be taken to reach this relatively small remaining population. We do think this population will still exist. Even in a world with re-aligned dependent rules, and with a robust and scaled Direct File, there would remain some non-negligible portion of the 160-or-so million American tax units that would simply fail to file a return. Some would be young people, or newly-arrived immigrants, who had not yet filed their first (U.S.) return. Some would be generally regular filers who had a major life event in the first part of the year which interrupted their normal filing practices. Some would be people who made a mistake on taxes in the past and were afraid to re-enter the system. Some would be chronic non-filers, who are not required to file, and who never realized they would stand to gain from filing a return. Even if these populations totaled just 1 in 1,000 taxpayers, that would still be over 150,000 households. **In what follows, we sometimes refer to this population as *true non-filers*, and the project to get them their refunds as *closing the true non-filer gap*.**

For this specific population, what additional special measures might we undertake?

In Section 14.1, we cover some philosophical issues about this problem, including rebutting common proposals about blanket automation of tax refunds. In Section 14.2, we offer what we think are the most promising proposals to reach true non-filers: not programmatic interventions per se, but a structural and organizational approach that we think will in turn ultimately yield the appropriate interventions. In Section 14.3, more speculatively, we offer some potential ideas for interventions to explore. In Section 14.4, we focus in particular on the intervention of offering 'simplified filing' for zero- or near-zero-income households.

These sections all effectively are restricted to the question of *federal* non-filers: helping ensure taxpayers who do not file *federal* returns can file those *federal* returns. Section 14.5

¹⁵⁵ A taxpayer without a filing obligation who is not due a refund is not a taxpayer who must or should file, and thereby not a true non-filer for purposes of this chapter.

extends the analysis to state filing, including the (potentially larger) population of state non-filers who have filed a federal return.¹⁵⁶

Finally, this chapter focuses on interventions that are internal to the tax system, not considering interventions requiring external collaboration with, for example, benefits agencies. In addition to serving as a useful conceptual distinction, we believe it makes sense for tax agencies to start with internal non-filer programs before moving on to the logistically more challenging project of crossagency collaboration.

14.1 Philosophical issues: why full returns are the ultimate goal

The rest of this chapter will explore various extraordinary measures we might take to get funds to non-filers, in lieu of filing a full return. But before proceeding, **it is critical to understand that the goal for all taxpayers should be full returns — via Direct File or a quality service of their choice. Anything less is a second-best measure, one of the goals of which is to get taxpayers back to filing a full return.**

Why? Because, as discussed at much greater length in [Chapter 2: Direct File and data import / pre-population](#) — and particularly in Section 2.1.2 — filing a full return is the simplest process that actually guarantees a taxpayer receives all of the benefits they are entitled to.

Advocates and commentators often point out, correctly, that there is a lot that the IRS, and the government writ large, *does* know about a taxpayer. Indeed, this is why pre-population is at the top of the Direct File agenda, and why it will make incredible strides in simplifying the full-filing experience.

But there are lots of things the IRS doesn't know — child care expenses this year, cash income, changes in family structure and marital status, residency in the United States, changes in disability status, certain tax-deductible education payments, and much more. When it comes to state returns, tax agencies do not even reliably know what state a taxpayer lives in. If the IRS (and, by extension, state tax agencies) were to simply issue its best-guess return, based on prior-year data and current-year information returns, the refund amount *could* be quite wrong, and in many cases would lead taxpayers to leave hundreds or even thousands of dollars on the table. For example:

- Last tax year, you took in your sister's son, living with him for most of the year and becoming his primary caregiver. You are now eligible for head of household filing status; for the Child Tax Credit; and for the Earned Income Tax Credit with children. The government does not know about this new child in your household, and would calculate your taxes incorrectly by potentially many thousands of dollars.
- Last tax year, you and your children moved out of your parents' home, where you had been living, and where the kids' grandparents paid the basic household expenses.

¹⁵⁶ The converse population, federal non-filers who have filed a state return, is assumed to be effectively nonexistent, given the mechanics of tax filing.

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You are now eligible to claim Head of Household filing status, drastically changing many aspects of your tax return, and likely increasing your refund by over \$1,000.

- Last tax year, you decided to start looking for work, and began paying your neighbor to watch your kids during the day. You are eligible for potentially thousands of dollars from the Child and Dependent Care Tax Credit.

In some cases, these sums left on the table could exceed the benefit access gaps that reformers set out to close in the first place.

Reformers may then concede that some taxpayers may be better served by entering their own data, but other taxpayers surely have no special circumstances, and would be well-served by a fully automated return. Could the IRS issue automated returns for just these taxpayers, encouraging the rest to file full traditional returns? The trouble is, the government does not know which taxpayers have additional data to report; indeed, if it knew, it would generally not need the taxpayer to report it. The government *can* provide to taxpayers the information it already knows, and ask taxpayers to review the information and fill in anything missing. And that is exactly what the IRS had begun to develop with pre-populated returns in Direct File — returns that marshal all the information at the IRS's disposal and ask taxpayers the relevant questions to fill in what is missing.

This argument is explored at more length in [Section 2.1.2](#).

But, suppose for argument's sake that the last point were not true: suppose the IRS *could* somehow determine which taxpayers were appropriate for a fully automated return in a given year, and filed those accurate returns without taxpayer involvement. What, then, would happen in the future? Most of these taxpayers would eventually have some sort of life circumstance that *does* require their involvement to file an accurate return. But these taxpayers will now have been conditioned to rely on the automated solution, creating a transition friction when a change in income sources, family status, or state residency requires them to move onto the more interactive filing path. Forcing abrupt shifts between fully automated and manual systems risks taxpayer disengagement, leading to inaccurate returns and incomplete refunds.¹⁵⁷ We may have systematically created, in other words, second-class taxpayers.

This is why, in the long run, the IRS's goal must be for every taxpayer to file a full return. **A full return — with maximal pre-population and cost-free services via Direct File — is the easiest process taxpayers can go through that guarantees they get their full benefits.** So, ultimately, if we establish anything less than 'traditional full filing' as the goal of the non-filer program, we will ultimately end up perpetuating the problem we set out to solve: taxpayers leaving money on the table.

¹⁵⁷ Notice how Direct File's iteratively pre-population-first approach mitigates this risk by keeping taxpayers in the loop each year — maintaining continuity while still reducing burden — so changes in circumstances surface through the course of (simple and free) interactive filing.

And this is also why a robust and functional Direct File is a prerequisite to the entire non-filer program. Without Direct File, there is no normal, easy, full filing process that the IRS can reliably refer temporary non-filers back to; there would be too much missing at the core of the filing system to tractably address this edge case.

While the rest of this chapter explores extraordinary measures for non-filers, the paramount goal is getting every taxpayer to file a full return.

14.2 Organizational approach

To a meaningful degree, despite years of attention to the issue, we do not know *exactly* what programmatic interventions will be effective in reaching non-filers. To the degree there are promising approaches — discussed in the next section — even they will take dedicated experimentation and iteration to reach perfection. As such, **we believe the most effective thing the IRS can do to close the true non-filer gap is to set up the right structures for success and give them time to work.** This section proposes such structures.

14.2.1 Better research and data on the non-filer population

Naturally, a good first resource in closing the true non-filer gap is basic information about true non-filers. This information comes in two categories: (1) For public consumption, in aggregate terms, what are some of the key characteristics of true non-filers? Are they concentrated in certain age groups, income bands, family structures, geographies, or type of income? How many true non-filers are there, and is this number increasing or decreasing over time? (2) For use within the agency, who *exactly* are these people? Can we create a list of the people we are confident are true non-filers, or at least very likely to be?

Current IRS data is woefully not up to the task. IRS issues its most thorough data about EITC non-filing, but even on this narrow subject there is significant ambiguity:

- Official government estimates on the EITC gap — as discussed in [Economic Security Project's 2024 Direct File report](#), Appendix C — range from 5 to 7.4 million households, and \$7.3 to \$11.5 billion.
- These public statistics often fail to distinguish between non-filers and non-claimant filers (those who file returns but fail to claim a credit on that return), which are two meaningfully different populations; the latter will be addressed with better oversight of private preparers (see [Chapter 15: IRS and private providers](#)).
- The IRS has released only high-level illustrative information on the kinds of populations that may be more likely to not claim EITC (listing, for example, non-traditional family structures, childless people, people with limited English proficiency, as in this [press release](#)) — not nearly precise enough to design targeted engagement programs.
- As discussed at length in [Chapter 12 on dependents](#), it is likely that a meaningful fraction of the alleged EITC participation gap reflects a misattribution in IRS estimates: adults not actually eligible for EITC because their children were

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legitimately claimed by another family member. These families are being erroneously included in many models of the EITC participation gap, skewing those estimates.

- Also as discussed in [Chapter 12](#), the IRS appears to issue conflicting sets of estimates for the EITC participation rate, using different methodologies and yielding different answers.
- These are all macro statistics. To our knowledge, the IRS has no individual-level record of people that they believe are outstanding EITC-eligible non-filers. (The IRS does identify a smaller set of taxpayers who may be eligible for EITC but failed to claim it on their return, for purposes of targeting the CP09 and CP27 notices — but these are all tax filers. Non-filers, about whom the IRS has less information, are categorically not included in the CP09/CP27 program.)

Of course, this is all relative to the EITC. There may be plenty of non-filers who are not eligible for EITC but are eligible for a refund due to excess withholding or other refundable credits — but the IRS has little to no systemic public estimate of this broader non-filer population whatsoever. (One former member of the administration reported that Treasury analysts have estimated the size of the non-filer population, but this analysis was performed on population samples and extrapolated to calculate broader trends, not using micro-level administrative datasets.)

Reformers pushed for more detailed reporting [during the Biden administration](#), and the [IRS Strategic Operating Plan](#) in 2023 contained multiple initiatives (within SOP Section 4) to improve this reporting. To our knowledge, though, the primary advancement that came of this work was a [late-2024 report](#) that focused mainly on taxpayers who filed returns and failed to claim credits they were eligible for, and used Census data (rather than IRS data) for a limited exploration of non-filers — which was again reported by credit, rather than aggregated into a single population.

As a result of all this ambiguity, we do not have a reliable order-of-magnitude estimate of the size of the true non-filer population — much less a descriptive analysis of who these people are, much less a by-name list within the agency of which individual people might be targeted with special measures to promote tax filing.

At times, analysts and policymakers within government have led external stakeholders to believe that creating better and more tractable estimates is impossible due to the many unknowns. These skeptics are of course correct that it is impossible to measure the true non-filer population with perfect precision: we are trying to measure the negative space between two enormous populations (those who should file and those who do file), and that inherently involves getting deeply into the weeds of complex edge cases and exceptions. And we just discussed in the previous section that the IRS does not have sufficient data to automate taxpayers' returns with anything close to 100% precision. **But the IRS has all the data it needs to calculate probabilistic estimates that any given person is a true non-filer. On the micro level, there is no problem with targeting non-filer measures at a tax unit with only a 50% chance of being a true non-filer, provided communications are well**

designed; and at the macro level, probabilistic estimates would aggregate to accurate estimates. This would all represent a monumental improvement over what is currently available — an improvement that is badly needed to actually make progress. Automating taxpayers' returns requires perfect data; preparing lists of taxpayers who *might* be eligible and calculating the likely size of an aggregate population does not. Better data is only impossible if we let the perfect be the enemy of the good. In an effort to avoid putting out imprecise estimates, the IRS is perpetuating a status quo where even the order of magnitude of the problem is unknown.

The IRS can pursue all of the following steps well within the bounds of its current data and infrastructure:

- *An internal dataset identifying all Americans who have not filed (or appeared on a return as a dependent) in a given year.* The IRS can construct the universe of all adults based on information returns (W-2s, 1099s, 1095s). (This universe can optionally¹⁵⁸ be augmented with all taxpayers who filed a prior return and have not — according to Social Security data — died since their last return was filed.) This would be the source-of-truth dataset used to implement interventions targeting this population and to measure those interventions' success. (There will, of course, be some judgment calls to make in this exercise. Most likely, taxpayers who filed extensions would not be included in this dataset, although the IRS may consider including some or all of them if, empirically, they often do not go on to file a return, despite the extension. There will also be complexity in the treatment of people who are — based on prior returns or based on age — likely to be dependents on another return; should they be included as independent entries or subsumed, implicitly or explicitly, into another tax unit? These are just two examples of the challenging decisions analysts would have to make.)
- *A probabilistic model determining how these individuals are clustered into households, which of these adults should file a return, and the approximate size of the refund they could claim.* The IRS should include anyone with a filing requirement, anyone with any withholding, and anyone likely eligible for EITC or CTC. Given uncertainty about family structure and unreported income, this will necessarily be a *probabilistic* model. Assumptions about family structure will generally have to be carried forward from past returns. There may be taxpayers whose need to file and likely refund are not known with much certainty, but that does not mean they are not known at all. Critically, the model needs to tackle the issue of cross-household child claims

¹⁵⁸ In a world without fully refundable CTC, low-income taxpayers with zero income do not meaningfully have a reason to file a return: they do not have withholding to recoup, and they are ineligible for any credits. As such, a universe that includes only taxpayers with information returns should in most cases be sufficient. That universe could be incomplete if information returns arrive late, or if taxpayers have only cash income that (illegally) goes unreported on information returns; cross-referencing with prior-year returns could help flesh out this missing population. Adding the prior-year population, on the other hand, might introduce some taxpayers who have left the country and are no longer required to file in the United States. How to best balance these imprecisions is an empirical question best left to the analysts doing the work.

discussed in [Chapter 12](#). Even if the dependency laws have not changed, for example, it is not worth classifying a taxpayer as having an outstanding with-child EITC claim if, empirically, they trade off claiming children with an ex-spouse, and the ex-spouse has already claimed the children for this tax year. This portion of the model also needs to translate from figures denominated in people, to those denominated in tax units. 4 million people who do not appear on tax returns, for example, will translate to far less than 4 million outstanding tax returns — a mismatch that very often causes confusion in tax data.¹⁵⁹

- *A single, reliable, public estimate of the number of outstanding true non-filers who ought to file returns for any given tax year* — based on the above datasets. The IRS may experiment with releasing this figure as a number of people or as a number of tax units. This figure will be larger than the EITC gap per se, as it will also include those who stand to gain from excess withholding or other credits. But it would *not* include non-claimant filers, who are a meaningfully different population.
- *A yearly detailed public analysis of who is in the true non-filer gap*. What patterns do we see in the data in terms of age, language spoken, race, geography, types of income, housing status, or previous filing history? Some of these attributes can be witnessed or inferred directly from the IRS data. In some cases, though, analysts may choose to use matched Census data to augment the picture they can draw of these true non-filers. We want to know not just that “taxpayers with limited English proficiency are less likely to file,” but rather, for example — “30% of non-filers do not speak English; 80% of these are Spanish speakers concentrated in Texas and California, and they appear to be predominantly first-generation immigrants.”

14.2.2 Reaching non-filers after April 15

We believe it would be productive to concentrate the implementation of any extraordinary measures for true non-filers into the May-November period each year. This is for several reasons:

- Tax agencies and tax-focused organizations (like VITA sites) are generally at maximum capacity assisting with the core filing season between January and April; any other tasks are inherently deprioritized to deal with the volume of traditional returns. By the same token, in some parts of the system, there is spare capacity in the summer and fall.
- The paramount goal is always for taxpayers to file a full return. Promoting alternate non-filer pathways before April 15 risks pointing taxpayers in two different directions, complicating messaging, and probably inducing a meaningful number of taxpayers to inadvertently file the wrong type of return, leaving significant money on the table. By separating these periods temporally, the message for all taxpayers before April 15 is to file a full return. After April 15, the IRS can identify the smaller

¹⁵⁹ In Direct File year two, for example, it was widely estimated that a little over 30 million tax units were eligible. This was often misunderstood to mean Direct File covered about 10% of Americans, instead of, more accurately, around 20%.

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set of taxpayers of remaining non-filers, and target them with different messaging, and more flexible options. Put differently, after April 15, we know who the non-filers are, and we know that the first-best option — an on-time full return — is unlikely.

- After April 15, it becomes increasingly possible to make increasingly reliable assumptions about non-filers' as-yet unfiled returns, and the information that would appear on them. With this information in hand, the IRS can take bolder steps to pre-populate or automate portions of taxpayers' returns than would be appropriate during the traditional season.
 - Most dependency claims have already been made. Suppose a taxpayer claimed a given child on their return in the past. If, after April 15, no one else has yet claimed that child, it is quite likely no one else *plans* to claim them, and that this taxpayer will be the one who can make the claim. Similarly, if, after April 15, no one has claimed a given taxpayer as a dependent on their return, it is quite likely no one *will* claim them, and it is reasonably safe to assume they are not going to be claimed as a dependent and can file an independent return.
 - Most information returns will have been received. W-2s are due to taxpayers and the IRS on January 31 and most 1099s by March 31 — and these forms can arrive late, or be amended, with corrections and late forms trickling in through the year. In March, automating a return based on available information returns is a dicey proposition. But, as the year progresses, it is increasingly likely that all information returns have arrived and are complete.

In such a world, operations and communications would be meaningfully split in two. January-April is the traditional filing season, with agencies and organizations focused on helping every taxpayer file a full return. May-November is the non-filer season, with agencies and organizations focused on picking up everyone who did not file a full return in the first part of the year, getting them as much of their refund as possible, and putting them back on track for the following year.

14.2.3 A team focused on non-filer engagement and experimentation

We propose the creation within the IRS — and perhaps within the Direct File team itself — of a targeted Non-Filer Team. The team's mandate would be two-fold:

1. Get non-filers the refunds they are entitled to, or at least the majority of that refund, for any current or past tax years in which they have missed the filing deadline. In August 2025, for example, the team would be tasked with getting refunds to taxpayers for tax year 2024, 2023, and 2022.
2. Convert these non-filers to full filing in the following year. An explicit desired outcome for a TY2025 intervention implemented in August 2026, for example, is that the taxpayer file a full TY2026 return before April 15, 2027.

Note that the first goal intentionally includes the phrase “at least the majority of that refund.” The calculus here — discussed further in Section 14.3.3 — is that, after April 15, a

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first-best full return is less likely, and so the Non-Filer Team may resort to second-best return options, getting a household some, but not all, of their tax benefits. Something is better than nothing, and keeping a household connected to the tax system has value, so that taxpayers do not disconnect and become chronic non-filers.

But this is why the second goal is just as critical as the first. The program would backfire if, by making a second-best option available, the Non-Filer Team convinced their audience that there is no need to ever file a full return and that the IRS will simply take care of it in the second half of the year. This could enshrine a system where the household never claims their full refund. As such, the Non-Filer Team has a dual mandate.

There is some precedent for the idea that these two goals can reinforce each other. In 2008, economic stimulus payments greatly increased the incentive for certain low-income taxpayers to file tax returns, including through [a custom simplified filing process](#) akin to the one established in 2020. [Ramnath and Tong \(2016\)](#) found that taxpayers induced to file in 2008 by the stimulus payments were also more likely to file in future years, even when those extraordinary payments were not available.

The Non-Filer Team would have access to the datasets discussed in Section 14.2.1, and would use them both to target interventions and to measure the results of those interventions. Generally speaking, in fact, the Non-Filer Team should implement most of its interventions as randomized controlled trials (RCTs), and use individuals' observed filing behavior following the intervention to learn what works. Given the uncertainties about what works, the control group in any such RCT must be 'no intervention,' not a light, or 'information-only' intervention. (It is our view that running such RCTs in a government context is a valid policy in the public interest. However, if IRS decisionmakers feel that such an RCT violates principles of universalism, the control groups could be separated from treatment groups by separating the interventions in time, with treatment groups receiving treatments 6-8 weeks in advance of control groups — though this impairs the ability of the IRS to measure impacts on the second prong of the dual mandate.)

The Non-Filer Team needs the authority (or access to expedited approval channels) to quickly design and create IRS notices and forms that can be used in their interventions. Quick implementation and iteration, far faster than the IRS's standard multiple-year form revision process, is critical to the team's success. As such, the team would likely need a direct report to a high level of the IRS. Moreover, the team would probably need some way to work around the time-consuming dictates of the Paperwork Reduction Act (PRA), which would be inconsistent with rapid iteration. The simplest way forward would be an act of Congress requiring the agency to solve the non-filer problem and exempting from PRA the work of this team.¹⁶⁰ Barring Congressional action, the team may have to get more creative.

The Non-Filer Team could be housed within the broader Direct File team. This would allow the teams to share mutually-relevant user insights about making the tax system more

¹⁶⁰ Precedent exists in the Affordable Care Act, which exempted the Center for Medicare and Medicaid Innovation from the need for PRA review.

accessible to marginal filers; it would give the Non-Filer Team a viable pathway to collaborate with Direct File if and when there are portions of the Direct File product itself of relevance to their work (for example, if taxpayers need to complete an online form related in some way to a tax return); and it would help with the broader project of “upselling” non-filers from extraordinary measures in one year to standard full filing in the next.

The Non-Filer team inherently must exist within the IRS, not at a non-public third party.¹⁶¹

There are several reasons:

- The IRS can, per Section 14.2.1, identify specific individuals who have not filed, and directly target them with personalized interventions. Outside groups inherently do not (and cannot) have this data.
- The IRS can use its microdata to measure the effectiveness of non-filer interventions, analyzing which targets accessed what refunds this year or next year. Outside groups again do not have this data.
- Previous work has established that the IRS is, unsurprisingly, a more trusted messenger than third parties regarding individuals’ tax obligations. The IRS can send IRS notices that speak on behalf of the IRS. Third parties cannot.
- The IRS can create and authorize second-best filing pathways; third parties cannot. The IRS can use prior-year return and information return data to drive those second-best processes, where, again, third parties cannot. All third parties can do is drive people to existing filing options, [something that generally does not work](#).

14.3 Programmatic ideas: notices and second-best returns

What should this new Non-Filer Team actually do? In this section we explore what we learned from our round of user research, and lay out some possible interventions. We offer these as first draft considerations rather than final policy prescriptions; it is in experimentation and iteration that the rubber will really meet the road.

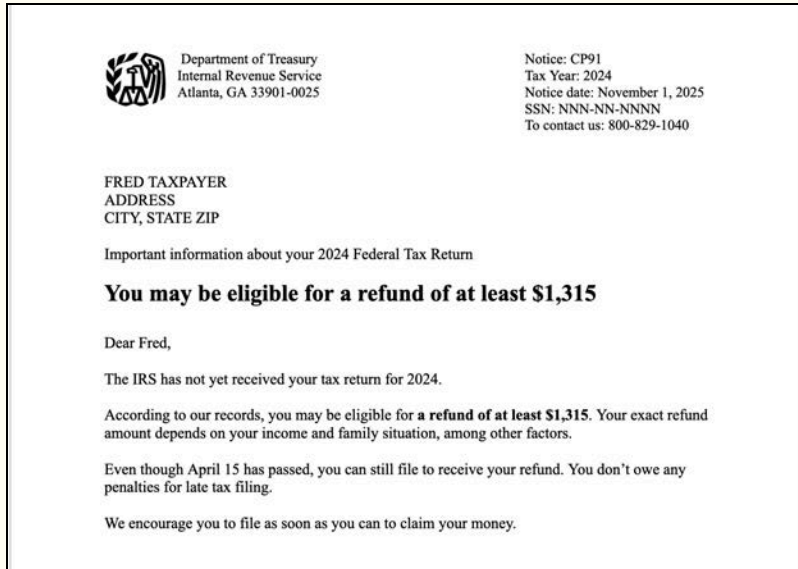
14.3.1 Findings from user research

During our user research sessions, we asked taxpayers to think about what they would like the IRS to do to help out if it were November, and they had failed to file their return that was due in April. During many of these sessions, we showed taxpayers three possible scenarios of what could happen in this situation.

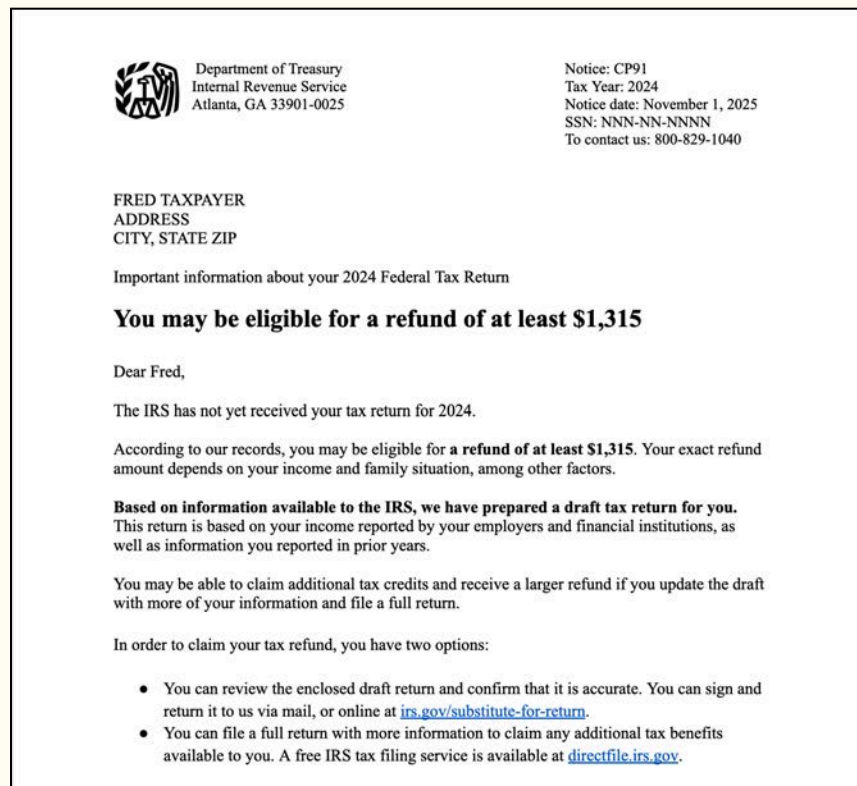
1. You are allowed to file, and you do not owe any penalties for late filing, but the IRS does not take any action to tell you this information.
2. The IRS sends you a note that you are likely eligible for a refund, and reminds you to file.

¹⁶¹ Given the low probability the current administration would create a Non-Filer Team in the current IRS, this does of course postpone the potential creation of such a program.

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3. The IRS sends you a note that you are likely eligible for a refund, with a pre-completed return that expedites the process of filing a return.



Keep in mind that our research participants were all regular filers, and so findings from this research *may* not generalize to the target non-filer population.

We heard a few key themes from this research.

Many taxpayers do not know there is no penalty to late filing if you are owed a refund; some did not know you could file late at all. In general, they discussed the actual status quo as if it would be an exciting change for the better.

- *“I think that's great if...you could just file it, you could get what they owe you. Not owe any penalties. That would be awesome.”* — Participant #13
- *“But if you can e-file and you do remember that, oh my goodness, I forgot to file my taxes, then I think that would be great. And you don't have any penalties. I think that that would be a fantastic option.”* — Participant #8
- *“I don't know what would happen if I was supposed to get money back. I'm guessing there's probably a penalty for doing it late.”* — Participant #1
- *“But I do think that people shouldn't be penalized. I understand the taxes needing to be done by a certain time. But if you're owed that money, you should be owed the money regardless, without penalty, in a perfect world.”* — Participant #12
- *“I would hope they would allow you to file, even if you're late.”* — Participant #3

Only one taxpayer clearly knew that taxpayers due a refund are able to file late without penalty.

Taxpayers uniformly thought the idea of the IRS doing something for taxpayers who had neglected to file would be helpful and positive. Discussing a reminder letter, the smallest intervention we could picture, feedback was basically universally positive. Some saw it as well beyond what the IRS *should* have to do, but still thought it helpful. Most flagged that it seemed out of character for what they view as a punitive IRS.

- *“I want them to remind me. In a perfect world, they're reminding me because they owe me money... I also want to be reminded if it looks like I may actually owe money.”* — Participant #11
- *“I think they should let you know, because maybe you forgot. Maybe things were really crazy. You've had a really rough time and that just slipped your mind. So I would rather know... [Upon reviewing mock-up reminder letter] That's good. That's what I was imagining.”* — Participant #15
- *“It seems like if they were going to send something, it wouldn't be telling you that...we think we owe you this money. I think they would just be like, no, you're supposed to file your taxes. So, this sounds nice.”* — Participant #13
- *“It's your job to file your taxes. The IRS shouldn't have to be your mommy and tell you to file your taxes. Everybody knows that there are a few constants in life and taxes are one of them. So if you don't file your taxes, you don't get your refund, that's your fault... [After seeing a mock-up reminder letter] That would be a lovely letter... I mean, in a perfect world, I think that would be ideal. You know, we pay into the taxes, so it would be nice if there were more things that helped people on an individual level because taxes are scary. And everything else I have in my entire life sends me letters like this to remind me to do things that I'm supposed to do. The IRS should. They don't, but they should. I think it would be definitely helpful to most human beings to be reminded because we all forget... My boyfriend does not [do his taxes on time, and once] he did*

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his taxes really late, and he owed money... This [letter] would have saved him.” — Participant #12

- *“I think a lot of people would probably be like, thank you IRS, for reminding me to file my taxes.... I think that'd be fantastic as a reminder... I think people would definitely open it up, especially when it comes from the Department of Treasury.” — Participant #8*

There was less consensus when it came to the question of whether the IRS should do more than send straightforward reminders. Taxpayers' opinions on this question are explored further below in Section 14.3.3.

Both hypothetical interventions we showed participants entailed the IRS communicating that the taxpayer was likely owed a refund — even though there would in practice be inherent uncertainty about the size of the refund, and even whether the taxpayer could end up owing. Handling this uncertainty introduces a tremendous amount of complexity. Many taxpayers said that it would be very damaging to get a communication suggesting a likely refund, just to later discover they got no such refund.

- *“Oh, that would be terrible. That would be a great big letdown. To say you may be eligible for this dollar amount, which is a lovely dollar amount for a working family, and then to process that and find out at the end that you owe money — for people that are living check to check, that's kind of devastating.” — Participant #12*
- *“Give me a ballpark figure, and then once we get in there, it's okay as long as it's just somewhere around there.” [What if instead of getting a refund you owed taxes?] “Well, that's heartbreaking.” — Participant #11*

Most taxpayers had not in fact noticed that the sample letters we showed them *did* express uncertainty about the eventual refund. Even after noticing this, some argued that the notice implied more certainty than it literally expressed.

- *“They do say your exact refund depends on your income, family... They're using kind of uncertain language, ‘you may be eligible for refund.’ But it's so bold there. It feels like you're definitely getting a refund.” — Participant #13*
- *“The part where it says your exact refund depends on your income and family should be highlighted on its own line.... because they should know that letdown might happen... You told me that [the refund amount was uncertain], and I still, my brain went, oh, there's money — until I went back and read it the third time... A different font, or italics, something that stood out, saying: ‘look, this might not be the dollar amount that you receive; you could...receive this amount, depending on your family circumstances.’” — Participant #12*

On the other hand, several taxpayers noted that prominent language about a likely refund would be critical to getting people to take the notices seriously.

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- *“I feel like it's prepared me enough by saying ‘your exact refund amount depends on your income and family situation... If you read things and you think logically, then you would notice that... [But] if you're just someone that says, oh, I see, I get a refund, then you need to read things more carefully. And there's nothing you can do about those people. But I think they do need [to see the estimated refund amount], though, like a carrot.”* — Participant #15
- *“Yes, this is great, especially if [the fact that it's a refund] is nice and bold at the top... Maybe they should put something like, you're not in trouble, like on the envelope or something.”* — Participant #8

Catching taxpayers' attention and getting them to take action without projecting overconfidence is complicated, and will take concerted user research, iteration, and experimentation.

14.3.2 Reminder-to-file notices

A basic notice reminding and encouraging non-filers to file, and explaining that they will likely not face fees for doing so, is the simplest step the Non-Filer Team could take. As discussed in the previous section, our user research strongly validates the notion that such a notice would be a good idea. Indeed, the circumstantial evidence that such a limited intervention could be effective is strong enough that we believe the Non-Filer Team ought to start here, before moving on to more complex interventions.

Skeptics may note that, in 2020, [the California Policy Lab \(CPL\) released blockbuster research on EITC outreach](#), showing that reminders to file were entirely ineffective.¹⁶² The tax access field understandably inferred from this finding that mere outreach was fruitless. But such notices from the IRS would be different than those CPL tested: they would be targeted specifically at those who did not file and they would be able to definitively tell their targets that they had an outstanding return to file; they would come from the IRS, not a third party¹⁶³; and they would contain useful information — that taxpayers did not miss their chance to file. This last point can be surprisingly critical. Although filers receiving refunds can file today without penalty, our user research participants generally did not know this and were pleasantly surprised to learn it. This fact could be new information for many recipients.

In a Direct File world, the letters could also contain a more precise and direct call to action — to visit directfile.irs.gov and start a return. Without Direct File, the CPL letters had to refer to a filing options page that may well have induced choice overload.

¹⁶² Later, CPL [released additional research](#) suggesting that tax benefits outreach nudges could be useful specifically in the case of pointing taxpayers to official simplified filing tools to claim expanded stimulus and CTC payments temporarily available during the pandemic.

¹⁶³ Most of the letters in the CPL study were from state benefits agencies or NGOs, though some were sent by the state tax department — though not the IRS.

There is also precedent for such reminder-to-file notices from the IRS in special cases, including notices about Economic Impact Payments sent to millions of non-filers in [2020-2022](#), which [may have been effective](#).

Of course, the operational details of designing and delivering such a notice interact significantly with the IRS communication considerations in [Chapter 10](#).

There are a few critical open questions about the design and targeting of the notice:

- *Refunds versus taxes owed.* The actual situation facing taxpayers varies significantly between those with positive tax liability (who may owe penalties, which taxpayers may interpret as “being in trouble”) and negative tax liability (who categorically do not owe penalties). These interventions are of course primarily intended for taxpayers due refunds — not least because the IRS already has (some) systems to collect taxes from delinquent taxpayers who owe.¹⁶⁴ But should this intervention also cover positive-liability taxpayers as well, who after all will owe less fees the earlier they file, and do eventually need to be brought back into the system? If so, how can the notice properly address this ambiguity? If not, how would the team correctly identify the right taxpayers? A taxpayer who is projected to have even a sizable refund could, after all, easily end up owing tax (perhaps, for example, because they no longer have the dependents they claimed last year). And, how would the notices and filing products explain in empathetic plain language such a scenario? Even if such cases were rare, they could be incredibly damaging to taxpayer trust — as we explored in the user research laid out above.
 - Our tentative recommendation is to design first the case where taxpayers are very likely owed refunds; the uncertain use case that could plausibly end in either a refund or a debt is too niche for a minimum viable product. This may include, for example, childless taxpayers with no history of cash income and no APTC payments during the year, and with withholding well in excess of tax liability. The team should carefully track the actual refund/debt amounts faced by target taxpayers so as to refine and improve projections over time. But the team should still extensively test and iterate to find designs that highlight the likely good news while not setting unrealistic expectations.
- *Amount of refund.* A special case of the dynamic above concerns the inclusion in the notice of a specific estimated refund amount, which we included in our sample notices in user research. As discussed above, taxpayers thought this was productively eye-catching information, but again that the estimate could do damage if it was wrong, even if the taxpayer still received a (smaller) refund.
 - Our tentative recommendation is to A/B test a few variants of this parameter — in user research, and if that is inconclusive, in practice. In one treatment, taxpayers do not receive a precise refund estimate at all. In another, taxpayers receive a precise estimate, but calculated conservatively, such that

¹⁶⁴ In practice, though, we are under the impression that these systems are predominantly deployed against relatively few taxpayers with high expected liability, which makes sense.

it is highly likely to be an underestimate. In a third, taxpayers receive the point estimate of the single most likely value for their refund. In possible alternate interventions, taxpayers receive a range of dollar figures (explicitly communicating uncertainty), or an estimate rounded down to the nearest \$100, 500 or \$1,000 (implicitly communicating uncertainty).

- *Call-to-action.* Finally, there is a question about the call-to-action on the notice. Actionability is important, especially for a population that has already shown some reluctance to actually file, and we strongly recommend any such notices contain direct calls to action, not generic encouragement to file, or links to pages with a choice-overload-inducing number of filing options. The obvious answer is to simply point taxpayers to Direct File, the single official entrance to tax filing. But perhaps it would be helpful to provide some options with hands-on additional assistance, since this may be disproportionately a population that already failed to use Direct File during the regular season. (Of course, if Direct File implements the tiered-assistance approach outlined in [Section 13.4](#), then a simple Direct File referral will already do this. See also Section 14.3.4, below, about a possible VITA collaboration.) The team should experiment with various options. In the case that taxpayers are referred to Direct File, perhaps collaboration with the core Direct File team could help reveal where such taxpayers are disproportionately likely to get stuck, thereby revealing more about what would be needed to get these taxpayers to file.

14.3.3 Automated second-best returns

A step up from mere reminder-to-file notices would be some sort of automated second-best return, that the IRS prepares based on available information — from prior-year returns, from information returns (W2s and 1099s), and via inference from all the other returns already filed. These draft returns would assume that information returns are an exhaustive picture of the taxpayer's income. They would assume that — net of the passage of time — family structures and dependency relationships are unchanged from the previous year, as long as there is no data on *other* already-filed returns to contradict this assumption.

It is reasonable to ask why we are discussing such an intervention at all, given the extended argument we made in Section 14.1 that returns cannot wholesale be automated, and that the IRS must prioritize full filing. But there are two good reasons to entertain the idea in this context. First, as discussed above, in the post-April 15 period, the IRS can have more confidence that such an automated return is accurate. Second and more importantly, at some point, the priorities change. In February, the appropriate goal is that taxpayers take the time to file a full, correct return and get the biggest possible refund. By six months later, and certainly by 18 months later, it is becoming quite likely the taxpayer will get nothing at all. The alternative is less likely a full refund and more likely a \$0 refund. **While we strongly believe any automated return is a second-best return, we also think that, at a certain point, a second-best return becomes better than nothing.**

That said, **our research suggests such an intervention is absolutely worth trying — but it is not nearly the slam dunk that reminders to file are, for a variety of reasons, explored throughout this section.**

14.3.3.1 Defining the automated return and target audience

Some assumptions would be hard or impossible to make on a fully-automated return. Even if a taxpayer claimed the Child and Dependent Care Credit in a previous year, it would be dubious to assume their child care expenses were exactly the same this year. In this case the draft return would have to leave out the credit completely — or perhaps request additional information in an accompanying worksheet (see below).

The Non-Filer Team may choose to prioritize those taxpayers for whom multiple prior returns show consistent family structures, and show no cash income that is missing from information returns. Indeed the team may choose to wait until a *following* year to prepare draft returns for taxpayers whose past data suggests particular uncertainty, or for whom the inability to make viable carry-forward assumptions is likely to negatively impact the taxpayer's refund.

14.3.3.2 Taxpayer attitudes

While our user research demonstrated near-consensus in favor of simple reminder notices, attitudes were more mixed about the idea of draft returns. In some cases the attitudes depended on the details of the mechanics, which we discuss in more detail in the next section.

Some taxpayers were clearly in favor.

- *“It would be pretty easy to [file] if they've already done that for you and you haven't really had any changes. Yeah, I like that. It seems pretty proactive of them. It seems like they really want you to go ahead and file.” — Participant #13*
- *“I do like this letter more [than the mere reminder to file]. I like the idea of a draft.” — Participant #14*

One taxpayer even suggested that providing the draft return would provide some badly-needed context on the uncertainty in the refund amount.

- *“I think that's a great idea because I think people need as much assistance as they can get... I like that it starts it for you. I think that's a great idea. This is definitely the superior [notice]... I think that makes it really clear — that you have to take action to follow up... Also that I like the part about it creating a draft and then telling you to go check that for accuracy because we all do that before we sign something.... The first one didn't give a lot of information and it didn't give you any real options. It was just like, hey, I'm getting some money. That was what I read from the first one. This one says: this might happen.” — Participant #12*

Other taxpayers, though, thought a draft return wasn't really necessary — and in fact might not be helpful in the case that the taxpayer does need to make changes.

- *“And so I think a reminder would be nice, but I don't think anything else is necessarily needed.” — Participant #9*
- *“I mean, that's nice that they did that. But it looks like it wouldn't save you time if there are changes. So, to me, it would be kind of extra. I wouldn't expect that. I think it would be more cost saving, especially since our taxes go to fund the IRS, if they just give that first reminder. If they made it easy to, like, check boxes and say, okay, check this happened, check this happened, and then you sent that off, that would be great.” — Participant #15*

Indeed, the rubber really meets the road in the case where the draft return is *not* completely correct. In this case, taxpayers generally liked the idea of being able to edit the draft return. But at least one taxpayer inferred that such editing would be difficult, and said she would accept the draft now and go back *later* to file a full return (a process that could cause problems if the later-filed return yielded a smaller refund than the one already paid):

- *“That means if I want it quick, I would need to take the draft that they did and just confirm. And if I found that I left opportunities or money on the table, I could actually refile my taxes to get the additional monies back, or I could start from scratch and file the full return... I would choose the first one where I'm following their draft first. And if I felt like it didn't have enough information, I would then take the time [later] to refile my taxes for the year... The goal is to not have any sort of penalties, so to get this money as soon as possible. And time is money... So if I do additional calculations... as long as it's within like \$50 to \$100, like, you know, I'm not going to really kill myself and start my taxes all the way over for that amount. But if I realize that I had additional deductions, credits, whatever, and I guess the program just overlooked it, and it equaled a few hundred dollars or close to a thousand, I would definitely refile the full tax form and I would do it the standard way I normally do.” — Participant #11*

In a meaningful sense, then, taxpayer attitudes depend on the details of implementation.

14.3.3.3 Finding a unique implementation

Given taxpayers' stated preference that the draft return be editable, and given that easy edits would reduce the probability that taxpayers claim the wrong-size refund, perhaps the answer seems obvious: taxpayers should be referred to an online service where they can review the information the IRS has, make any edits, and file a return.

But this should sound familiar: this is precisely the functionality of Direct File with pre-population.

So what, then, is a technical implementation of this 'automated return' that does not simply collapse back into a Direct File referral — the reminder-to-file notice that we already discussed in Section 14.3.2?

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We can envision a few options here:

- *A worksheet along the lines of the IRS CP09/CP27, or the Illinois ITR-61-EIC/EDA-131.* The [CP09](#) and [CP27](#) are forms the IRS sends to filers who appear eligible for, but do not claim, the EITC; the [ITR-61-EIC/EDA-131](#) are a pair of forms the Illinois Department of Revenue sends to Illinois taxpayers who filed federal returns and claimed the EITC, but did not file an Illinois return (despite being categorically eligible for a state EITC equal to a percentage of their federal EITC). These notices tell the taxpayer they are likely eligible for a refund (federal EITC, or complete state refund including EITC, respectively), and contain some reflection of the taxpayer's data,¹⁶⁵ and a worksheet where taxpayers confirm a few key facts the tax agency cannot observe — regarding, for example, residency or immigration status.¹⁶⁶
 - In the case of the CP09 and CP27, taxpayers mail the forms back. In Illinois, taxpayers can mail the forms, or — critically — digitally send in a picture of the signed form. In principle, the Non-Filer Team could also create an online form taxpayers can use for confirmation of the form.
 - This intervention would differ from a full Direct File return in that it would probably only require taxpayers to confirm *some* facts, which the IRS considers most likely to be incorrect, or most likely to impact the refund amount. The worksheet would probably *not* confirm every single fact implied in the return; this would collapse into Direct File.
 - The intervention would also differ from Direct File in that it would not require a taxpayer to go through online identity verification to access a pre-populated return. The worksheet can be mailed unencrypted with enough information for the taxpayer to take action; and even if they use an online form to confirm the worksheet, this could be done without clearing identity verification. Taxpayers could, for example, enter a unique code found on the mailing on an online portal in order to confirm the required facts, without getting the full sensitive data access that would necessitate full identity verification.
 - Getting the design of the worksheet right is critical, and challenging. The worksheet would need to contain the vast majority of items that could cause an overpayment; it would be a bad outcome for a taxpayer to receive an overpayment and owe money back to the IRS when they didn't mis-answer anything on the worksheet. Meanwhile, though, past user research has revealed that many taxpayers — especially marginal taxpayers like this population — assume the IRS knows a lot about them, and would be hesitant

¹⁶⁵ In the CP-09/CP-27 and Illinois cases, the intervention is not proposing a new full draft return from whole cloth, and so need only represent information about the EITC itself. In the case of a full second-best return, the communication would have to somehow contain a representation of a full return, in a format more user-friendly than Form 1040.

¹⁶⁶ Because both of these interventions are for taxpayers who have already filed a federal return, the taxpayer does not have to attest to not having additional unreported income.

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to say ‘no’ to something if they understood the IRS to be telling them it was probably true. The phrasing probably matters a lot.

- *No worksheet or data sent in the mail, but the notice redirects the taxpayer to some similar function online.* This design has the advantage of not relying on snail mail, but has the disadvantage of relying more heavily on online identity verification. Moreover, the conceptual trouble with this design is that it is hard to picture what would distinguish it from traditional Direct File.
- *Draft return for illustration only.* As in the first option, the mailing contains a draft return (or representation of potential return information), but unlike the first option, the taxpayer cannot actually file this return in any way. Rather, it is shown for illustration, to make tangibly real the fact that there is probably a refund out there. But, to take action, the taxpayer has to go to Direct File.

A few additional considerations:

- There is good logistical and legal precedent for this whole exercise. The IRS already implements the Substitute for Return (SFR) program under [26 USC 6020](#), to automate returns for taxpayers who owe; this is, in many ways, just the SFR in reverse. The Non-Filer Team, indeed, may be able to learn important lessons from SFR. As noted above, there are also similarities to the extant CP09/CP27 program.
- The Non-Filer Team would probably be able to use the Direct File fact graph / tax logic engine to implement many of the calculations needed for any of these interventions.
- On one hand, access to easy amended return filing might appear to resolve contradictions at the core of this intervention. If taxpayers can easily file amendments to correct any mistakes on their automated return, perhaps the errors do not matter so much. It is true that better access to amended returns would help and is important, but it does not completely solve the problem. Consider the case where the taxpayer gets *too large* a refund via the automated return, and now owes money back to the IRS. It’s not making that repayment easy that’s the problem; it’s that having to make a repayment is a bad experience per se.

Designing these interventions is an unavoidably awkward exercise, since every step more automated than Direct File inherently brings with it the increased risk of inaccuracy, but every step back toward “giving the taxpayers full functionality to review and edit” collapses the intervention back to Direct File. And more than anything else, it is the tenuousness of finding a non-Direct-File automated return intervention that makes this policy less of a slam dunk than reminder letters. If we take seriously the idea that Direct File is a fully pre-populated return, designed to be as easy as possible to file, there may not be realistic ways to make something *even easier*.

And this relates to one last warning about generalizing too far. While highly streamlined interactions (“filing taxes is just as easy as replying to a text!”) may be effective in these narrow contexts, their success should not be taken as evidence that fully automated returns are suitable as a comprehensive approach to tax filing. These second-best returns come

with real downsides. Taxpayers will inevitably end up leaving non-negligible amounts of money on the table (far less than they would otherwise, but still money). Other taxpayers, despite the careful conservative targeting and despite the admonitions of uncertainty, will be promised a refund and end up owing taxes, or receiving far less than anticipated, and will have their trust damaged. These are inevitable downsides of trying to further automate a process that is based on information that the government does not have. Second-best returns are second best, and the goal must always be that they serve as a stopgap for a small population, bringing them back into the fold for full filing.

14.3.4 Collaboration with VITA

There could be a fruitful opportunity to involve VITA in the efforts of the Non-Filer Team.

For one thing, the timing of the work could be efficient. VITA's workload is heavily concentrated on the January to April period, with sites ramping way down or even closing completely outside the core filing season. By being able to turn during the second half of the year to non-filer activities, VITA sites may be able to operate more consistently throughout the year, and thereby make more efficient use of fixed resources (though the viability will depend on the site's logistics and funding).

Moreover, non-filers are by definition exactly those taxpayers with the most barriers, those most daunted by tax filing. It stands to reason that they would be some of the taxpayers who might most benefit from the hands-on service VITA can provide.

How exactly VITA could be involved with the Non-Filer Team's interventions is to be determined. Perhaps the reminder notices discussed in Section 14.3.2 could include information about local sites where taxpayers could go for more hands-on assistance or the phone number of a local VITA site these taxpayers could call. Better yet, perhaps the IRS could work closely with the VITA site to somehow offer these taxpayers personalized appointments at a local site. Perhaps the IRS could share with sites more detailed analysis about the distribution and characteristics of non-filers in their catchment areas, to facilitate targeted outreach activities during this off-season. Perhaps there could even be ways to enlist VITA organizations in direct targeted outreach as agents of the IRS, though there are of course significant privacy issues that would need to be worked out for such an approach. The Non-Filer Team might partner with enterprising VITA sites to figure out the engagement models that work best, and listen to those sites as they explain what they would need to engage more non-filers.

Of course, all of this would rely on VITA sites being funded for this difficult work, rather than, as at present, being incentivized to run up their return counts during the regular season, as discussed in [Section 13.5](#).

14.4 Zero-income taxpayers and ‘simplified filing’

A term that has not yet appeared in this section is “simplified filing.” The term has come to mean different things to different people, but we define it in Section 14.4.1 as a parallel filing pathway for taxpayers with functionally zero income. The most prominent example of simplified filing was GetCTC, in 2021 and 2022.

We haven’t mentioned simplified filing because — in a world with fully pre-populated Direct File — we believe tax agencies in most cases should not pursue it, at least as a standalone product. The future of tax filing runs through making tax filing easier for everyone, not creating a hard-to-describe carve-out for a specific population, other than the second-best automated returns discussed above. If there is any large-scale future for “simplified filing,” it is in creating limited specific features within the context of Direct File, not creating a standalone product or overhauling the whole Direct File experience.

Section 14.4.1 defines simplified filing and its target audience. Section 14.4.2 explores what it would mean to offer simplified filing if the federal refundable CTC (or similar credits) were reinstated; Section 14.4.3 explores the role of simplified filing in a world with state, but not federal, refundable CTC. Section 14.4.4 discusses technical issues related to MeF and filing regulations.

14.4.1 What is simplified filing, and who are functional-zero-income taxpayers?

Simplified filing is a streamlined filing process for *functional-zero-income taxpayers* (defined below), in which taxpayers provide basic information and family structure, but do *not* report their income, or answer questions about the many complex provisions that can come into play when a taxpayer has income. Taxpayers can use simplified filing only to access refundable credits that do not require any income information — for example, the fully refundable CTC in tax year 2021, and the Economic Impact Payments in tax year 2020 and 2021, both of which provided the same amount of money to every taxpayer without a filing requirement. The EITC and the CTC under current law are *not* examples of such credits, as the amount of those credits is an explicit function of a taxpayer’s earned income amount: taxpayers with \$500 of income get a different amount of credit than taxpayers with \$5,000 income.

Meanwhile, we define *functional-zero-income taxpayers* as people without a filing requirement,¹⁶⁷ whose only refund comes from refundable credits that do not require income information. This is generally a subset of non-filers; not all non-filers are functional-zero-income taxpayers. In most cases, functional-zero-income taxpayers will have exactly zero *earned* income; if they were to have earned income, they would probably

¹⁶⁷ Generally, this means that a tax unit earns below the standard deduction amount for their filing status (currently around \$16,000 single, \$32,000 married, and \$24,000 head of household), and has less than \$400 in self-employment income. There are other criteria that would occasion the requirement to file, but these are the principal thresholds.

be eligible to claim EITC or excess W-2 withholding, or they might have a filing requirement due to self-employment income over \$400. Note, though, that some functional-zero-income taxpayers may not literally have \$0 in income. A taxpayer with zero earned income and \$10,000 in Social Security income is probably a functional-zero-income taxpayer, as we define it.

Under current law, there is no reason for functional-zero-income taxpayers to file *federal* returns — but there was in the recent past, and there could be in the future.

Functional-zero-income taxpayers are unique for a minor technical reason (see Section 14.4.4) but mainly because most of the complexity of a traditional return is not actually relevant to them:

- The precise amount of their income, whether it's \$1 or \$10,000, is not relevant; it will be wiped out by the standard deduction amount, and it will not be used to calculate any credit eligibility. The entire income section of a return can be ignored without having any material impact. (Note again that a taxpayer with *earned* income would probably not be considered functional-zero-income, because they would probably be eligible to claim EITC or excess W-2 withholding.)
- Expanded subtractions or deductions due to, for example, blindness, are not relevant; the standard deduction already wipes out all income.
- Eligibility for more complex credits is irrelevant, since the taxpayers are categorically ineligible for these credits. (Remember we are talking about a population whose only refund comes from credits that do not require income.)
- Generally speaking, the complex distinctions between single and head-of-household filing statuses are not relevant, since the lower tax rates and different credit schedules do not apply.

14.4.2 Options to accommodate functional-zero-income taxpayers in a world of fully-refundable federal CTC

In tax year 2021, functional-zero-income taxpayers had important reasons to file federal returns — to claim expanded CTC, and EIPs (Economic Impact Payments, or commonly referred to as stimulus checks). **Let's suppose future law re-established the expanded CTC, or emergency payments like the EIPs, thus giving functional-zero-income taxpayers reason to file federally. What would be the right filing pathway for these taxpayers?** We can picture three options.

1. *Filing a full (nearly) normal return with Direct File.* Functional-zero-income taxpayers would complete Direct File basically as normal. Because they have little or no income, they would be able to skip large sections of the product — and the product team might design additional marginal affordances that ensure zero-income taxpayers can skip some additional questions they might otherwise have to answer, with clever deployment of fact graph logic. But, in the main, this would be a traditional Direct File return, and might be slightly more complex than necessary for

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a true zero-income taxpayer. Non-earned income below the filing threshold would still have to be reported.

2. *A specialized Direct File experience.* Within Direct File, taxpayers would elect up front whether they want a full or a simplified return. If they select the simplified return path, the filing experience would be meaningfully streamlined compared to option #1. The non-earned income below the filing threshold would *not* have to be reported. But, all Direct File users, including the ~99% who are not zero-income taxpayers, would have to choose up front which path to go down.
3. *Standalone (non-Direct-File) simplified filing product.* As in the case of GetCTC in 2021 and 2022, simplified filing could be provided in a standalone product. The product might borrow from Direct File, but it would be fundamentally a separate product with a separate codebase.

We believe option #1 — filing traditional Direct File returns — is the best of these options. Why?

- Some of the same dynamics we discussed in Section 14.1 apply here: it can be challenging to know if a simplified return is sufficient until the taxpayer actually starts filing. Confirming the simplified return is appropriate is a commensurate process to simply completing the full return. And, creating a two-tiered filing structure (via options #2 or #3) may be damaging in the longer run, as taxpayers get used to their second-tier filing status and struggle to transition to a categorically different return.
- Any version of option #2 is going to involve compromises for the 99% of Direct File users who are *not* functional-zero-income taxpayers. The sacrifices for the overwhelming majority may not be worth the marginal gain for the tiny fraction who may benefit from simplified filing.
- If we pursue option #3, getting taxpayers to the right service will be a serious challenge, and plenty of them will choose the wrong door. Introducing a detailed screener to ensure simplified filing taxpayers are in the right place would, again, be commensurate in difficulty to just completing #1. And an outreach campaign that points taxpayers to various different places — we learned extensively in 2021 and 2022 — is far less effective and harder to implement than a campaign that points to one. Indeed, when the outreach message is challenging, many would-be outreach partners throw up their hands and say they don't know enough to get involved in outreach.
- As discussed above, we are serious about the idea that Direct File can be a transformatively easy experience. We believe that a fully pre-populated Direct File will be nearly as easy as simplified filing. We would rather take this mandate seriously and commit to it, than divide attention across multiple projects.
- It would be plausible to offer a version of #2 or #3 during the second half of the year, as part of a non-filer campaign. But we think the more-automated interventions discussed in Section 14.3.3 are probably closer to the right approach.

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- One advantage to #3 is that the simplified filing product could employ a lower level of identity verification. But we think it is again better to address the identity issue head-on, rather than generate a carveout that introduces its own challenges.

We concede, though, that reasonable actors could select #2 or #3. We recommend carefully analyzing how things proceed in any case:

- *If pursuing #1:* keep an eye on the user experience of functional-zero-income taxpayers as a key outcome of interest.
- *If pursuing #2:* approach this iteratively, as a set of features; and be careful not to inordinately damage the core experience for most filers. Keep a careful eye on how taxpayers choose which path to pursue, and if they are making the right choice.
- *If pursuing #3:* maintain as much consistency as practical across the products, and have an intentional strategy about how taxpayers get triaged into the right product, including redirecting taxpayers if it later becomes apparent they chose the wrong door. Such triage was a challenge in 2021.

14.4.3 Options to accommodate functional-zero-income taxpayers in a world with fully-refundable CTC only at the state level

Today, the considerations in Section 14.4.2 are moot at the federal level. There is no federal refundable CTC, or any other credit available to functional-zero-income taxpayers. But there are now many states with fully refundable CTC (including CA, CO, MN, MA, MD, NJ, NM, and NY, with more potentially on the way). In these states, functional-zero-income taxpayers can and should file state returns, even though there is no need to file federal returns.

For these taxpayers, one can imagine two different options:

1. Functional-zero-income taxpayers skip their federal return and proceed straight to a free, easy-to-use state filing tool. Given this specific use case, that state tool ought to be a “simplified” return; though there would remain open questions about how explicit the screener section of the tool should be.
2. Functional-zero-income taxpayers use federal Direct File and continue through to their state return like regular taxpayers, filing a federal return *even though there is no need to do so*.

In a world where Direct File exists, counterintuitive though it may seem, we believe functional-zero-income taxpayers should be encouraged to use federal Direct File as the gateway to their state return, even if there is no need for them to file the federal return it generates. There are a few reasons for this:

- Many of the reasons we argue against providing multiple alternate federal pathways in Section 14.4.2 still apply here: (1) Getting taxpayers to the right path would be quite challenging, and some will end up in the wrong place, leaving money on the table or winding up non-compliant, and navigating a comprehensive triage system

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would be commensurate to filing a return. (2) Taxpayers used to skipping their federal returns could get stuck in a second-tier system. (3) An outreach campaign that points different targets to vastly different services (federal versus state filing, in this case) is hard to implement.

- Despite the fact that routing through Direct File would require functional-zero-income taxpayers to answer some irrelevant federal questions, they could still on net have a better taxpayer experience. Standalone state simplified filing tools would have to recreate vast swaths of Direct File, including complex topics like determining dependents. It is likely Direct File would, on average, do a better job implementing these topics, given the relatively vast centralized resources it has at its disposal to serve a much larger population. (A thorough standalone state tool would have to create at a minimum 10-30 screens for a dependent flow, just for a few thousand total users.) More often than not, these user experiences as implemented in state tools would be worse.
- It is natural that a good, motivated state-level team would eventually want to expand its reach beyond just the relatively small share of functional-zero-income taxpayers getting state CTC. But any such expansion would genuinely run into conflict with federal filing for the rest of the population, who would not be well served skipping a federal return.

In a world, though, where Direct File does not exist, and where states do not know if or when it will return, it is reasonable that some states will pursue state-level simplified filing, to deliver value immediately. If states do this, we recommend:

- *Keep the scope tight.* Remember that *most* people don't need standalone state returns; CTC-eligible functional-zero-income taxpayers comprise a very small population.
- *Be careful with the promotion of this tool so it does not conflict with standard tax filing.* Given there are so many more *normal* tax filers than functional-zero-income taxpayers, overpromoting the simplified filing tool could do more harm than good. Suppose 1% of would-be filers are functional-zero-income; and suppose further that 50% of functional-zero-income taxpayers use simplified filing, and that only 1% of normal filers erroneously use it. These would be excellent conversion and false positive rates. But even in this world, two thirds of the simplified filers would be the wrong users. It is not hard, in other words, for large portions of the user base to wind up being the wrong taxpayers.
- *Consider building special reject rules that reject returns from taxpayers who shouldn't — or likely shouldn't — be using simplified filing.* For example, states could reject simplified returns from any taxpayer with a W-2 (recall that most taxpayers with earned income are eligible for EITC, and therefore not functional-zero-income filers, as we define it), any taxpayer with 1099-NEC income totaling over \$400, or any taxpayer who has claimed EITC in each of the last several years. These taxpayers could be required to go back to full filing.

14.4.4 Technical considerations: MeF rules and revenue procedures

Any solution entailing a functional-zero-income taxpayer using Direct File requires one small but important change to MeF: literally accepting these returns at all. At present, MeF rejects returns with \$0 in income and \$0 in refund. This was even true during the simplified filing era of 2020 and 2021, when the [simplified filing procedures](#) instructed filers to enter \$1 in taxable interest income to get around the programming issue. This process works, but it's ultimately a workaround, and MeF rules should just be adjusted.

And indeed, the IRS has already loosened similar rules in other contexts. For TY24 and beyond, the IRS accepts returns with no taxable income if the return contains a non-zero amount of (non-taxable) Social Security income. This exception was added to meet the expectations and needs of retirees, and provides a precedent for additional flexibility to achieve specific policy goals.

In addition to the MeF change, certain simplified filing options in Section 14.4.2 would require a Revenue Procedure akin to the pandemic-era policies (Rev Procs [2020-28](#), [2021-24](#), and [2022-12](#)). Recall from Section 14.4.1 that functional-zero-income taxpayers may not literally have \$0 in income; it is simply that their income is irrelevant to their taxes. The Revenue Procedure would explicitly permit these functional-zero-income taxpayers (as defined above) to report \$0 in income, even if they in fact had non-zero income. A slightly more complex version of this Revenue Procedure — with some of the boundaries defined by state revenue departments — would be needed to accommodate option #2 in Section 14.4.3 (functional-zero-income taxpayers use federal Direct File en route to their state returns).

14.5 Non-Filer Teams at the state level

The above analysis primarily concerns the issue of federal non-filers, and, in Section 14.2, a federal Non-Filer Team to bring them into the fold.

Would it be productive for states to launch their own non-filer programs, akin to the programs administered at the federal level? We think the answer is probably yes, for a few reasons:

- **State Non-Filer Teams can address the novel population of federal filers who do not file state returns**, who are left untouched by a federal Non-Filer Team.
- **State Non-Filer Teams could make progress launching and experimenting in a period of federal inaction.** Although a non-filer program would be more effective at the federal level, state teams are well-positioned enough to begin having some impact and drawing some lessons now.

A state Non-Filer Team would be similar to the federal one discussed above, with a few differences.

14.5.1 Target populations and calls to action

Unlike a federal team, there are two unique populations a state Non-Filer Team could target: taxpayers who have filed neither federal nor state returns (which we call “dual non-filers”), and taxpayers who have filed federal but not state returns (which we call “state-only-non-filers”).

Addressing the dual non-filers is basically analogous to the federal analysis above. Notably, where possible, **we think that a state Non-Filer Team targeting dual non-filers should encourage taxpayers to file a federal return first.** While state revenue departments may see this as out of their lane, most taxpayers have more federal than state refund on the table, and it would not serve those taxpayers well to encourage them to skip their federal returns. Moreover, many states’ state filing processes explicitly or implicitly require taxpayers to start with a federal return, anyway.

The population of state-only-non-filers, meanwhile, may be quite large: informal estimates by state revenue departments have put this figure at 3-5% of federal filers in any given state. Addressing this population is very different. For one thing, the call to action here is to file a state return; the federal return has already been filed. But many states may not have standalone state filing tools, either in a world without Direct File at all, or in a world where state filing has been more tightly incorporated into Direct File. **Moreover, there is far more information available on a state-only-non-filer than a dual non-filer.** The taxpayer has already confirmed their total income and their family structure on their full traditional federal return. The number of unknowns related to state-specific provisions is much lower than the number of unknowns for an unfiled federal return. Both of these considerations militate in favor of **revenue departments making much more generous use of the second-best automated returns discussed in Section 14.3.3 when addressing state-only-non-filers.** Given how much is already known about these taxpayers, these second-best returns are likely to be very accurate. This is in fact what Illinois did in implementing the [ITR-61-EIC/EDA-131](#) program discussed above.

State teams implementing programs for state-only-non-filers may also be increasingly critical in a world where a federal Non-Filer Team widely implements automated second-best returns for federal non-filers. It is unlikely that those second-best returns will be able to accommodate state returns, meaning the federal team would create a new population of state-only-non-filers, which the state team would need to address — hopefully in collaboration with the IRS.

14.5.2 Timeline of data availability and restrictions on data use

State revenue departments receive a full roster of federal tax returns filed by taxpayers in their state from the IRS, which would allow states to differentiate the dual non-filers and state-only-not-filers, and to use federal return data to implement interventions for the latter. This data is critical to the state Non-Filer Team; it would be impractical to implement non-filer interventions without knowing which non-filers are which. The states do not,

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however, receive this data until relatively late in the year. In general, they receive data from TY2024 returns in November or December 2025, and there is not really enough time between that data availability and the start of the next filing season to run a robust non-filer program. **So realistically, states would have to run their non-filer programs at a one-year lag; in August 2026, a federal Non-Filer Team would be working on TY2025 non-filers, but a state team would be working only on TY2024 non-filers.** However, it is possible that a modernized IRS could reduce this data sharing lag in the future.

There are also legal and information security issues related to the use of federal return data to run state non-filer programs. The data that the IRS provides to state tax departments in this manner is Federal Tax Information (FTI), meaning the IRS puts strong restrictions on its storage and management under Publication 1075. These restrictions can make it prohibitively difficult for some state agencies to manage and use the data. Explicit or implicit disclosures of the data to taxpayers in the implementation of non-filer programs, meanwhile, could carry taxpayer data implications under 26 USC 6103. States would have to work carefully and likely in collaboration with the IRS to use this data effectively.

14.5.3 Collaborations with other state agencies in the non-filer context

State Non-Filer Teams could also make use of collaborations with safety net benefit agencies, or even public schools, administered as they both are at the state or local level. Such collaborations might open up possibilities not available to a federal Non-Filer Team.

15. IRS and private providers

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Summary

- The IRS has historically played a limited oversight role regarding the private tax software providers and paid preparers who comprise the broader tax filing ecosystem — in large part a function of the IRS’s limited capacity and leverage. In a world with a resurgent Direct File, we believe it would be time for this posture to self-consciously change, to ensure better outcomes for taxpayers.
 - While taxpayers should of course be allowed to use other services, the IRS should — unlike in 2024 and 2025 — unapologetically promote Direct File as a default, and even preferred, option for tax filing. (15.1)
 - The IRS should more rigorously enforce accuracy standards for private tax preparation software — a task that would be made immeasurably easier by the existence of Direct File tax logic. This comprises both *hard accuracy* (given a set of inputs, does the software determine the correct eligibilities and amounts) and *soft accuracy* (given a certain taxpayer situation, how likely is it that they are successfully guided to claim all the provisions available to them). A dedicated team would probably be necessary to enforce these standards. (15.2)
 - The IRS should also enforce rigorous privacy and security standards for software providers, holding them to the same standards it would impose on its own products — at the price of noncompliant providers losing access to IRS systems (15.3). This is especially critical as the IRS gives private providers access to ever more taxpayer data (15.3.1).
 - The IRS should also regulate paid preparers, which will require statutory change. (15.4)
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For decades, the IRS has played a very limited oversight role over private tax software providers and paid preparers. Preparers can be penalized for fraudulent returns, and

software providers have to pass a limited set of accuracy tests to be authorized for e-file. Preparers are also legally bound by taxpayer data private protections in 26 USC 7216. But in practice, IRS enforcements or penalties are few and far between, even in cases of [systematic inaccuracy](#), likely [violations of taxpayer data privacy rules](#), [high-profile outages](#), or [misleading advertising](#). We are not aware of any precedent for the IRS imposing penalties on private tax preparation software for inaccuracies, much less for misleading or subpar functionality.

Meanwhile, in non-punitive cases, **the IRS has universally positioned itself as something of a neutral party with regards to the functioning of the tax ecosystem.** IRS communications about Direct File, for example, were at pains to present the new project as simply another choice for taxpayers, one that is only for some taxpayers, and one that the IRS would not dream of promoting over other options. During the 2025 tax filing season, as noted in [Chapter 7: Direct File promotion and outreach](#), the IRS web page about free tax filing switched back and forth every minute between whether Free File or Direct File were listed first on the page.

This is all despite the fact that there is ample and serious evidence that some private actors regularly [mislead](#) or [take advantage](#) of taxpayers.

To a meaningful degree, this hands-off approach has been a function of power, leverage, and capacity. In a world where the IRS did not offer its own tax filing options, what leverage did it really have to nitpick about those that third parties were offering? And in a world where nearly all of these solutions were private, how could the IRS legally and ethically draw any distinction between the options available to taxpayers? Today, in a world at least for now again without Direct File, many of these constraints still apply.

But in a future world with a resurgent Direct File, the IRS would be empowered to play a more strident and active role shaping the broader tax filing ecosystem. This chapter explores what this may look like.

In general, while taxpayers should have the choice and freedom to interact with the tax system as they see fit, we believe the IRS should be willing to take a firm stand on private providers in the ecosystem. The IRS should control and regulate the role private providers play in the tax system, and hold them unambiguously to as high a standard as the government. While private providers will of course identify opportunities to differentiate their offerings and provide value to customers, this should not come at the expense of the integrity of the filing system or risk to taxpayers who avail themselves of these options. The role of private providers should be contingent on operating in taxpayers' best interest. And in conducting this oversight and regulation, the IRS should take candidly into account the track records of private actors, to assess whether they promote accurate and secure tax administration, and the IRS should impose consequences on those who do not.

Such a stance does not sacrifice taxpayer choice or private enterprise; it simply increases the probability that taxpayers are able to successfully and safely navigate the tax system.

The health of the tax ecosystem relies on a vigorous and empowered IRS willing to take this stance.

15.1 Direct File as a default, and preferred, option

As a pilot program with meaningfully limited scope, the IRS was limited in how prominently and forthrightly it could promote Direct File — a filing option that genuinely would not work for many taxpayers.

Once Direct File’s scope is larger — once it reaches its *baseline maturity*, as described above — we believe the IRS’s stance should change: it should promote and talk about Direct File as the IRS’s default filing option (see [Chapter 7: Direct File promotion and outreach](#).)

This is not to say that the IRS would force any taxpayers to use Direct File, or that it would privilege Direct File returns over others. As in other contexts (e.g., Medicare Advantage), private third-party services remain available and supported. But there is no reason the IRS cannot take the position that Direct File is its recommended filing option for taxpayers. It is the option for which the IRS can have the most confidence in return accuracy, having designed and reviewed it in-house and due to pre-population of taxpayer data. It is the option for which the IRS can have the highest confidence in fraud controls. It is the option that doesn’t require taxpayers to expose their data to third parties. For all these reasons, the IRS should take the view that, while taxpayers may do whatever they wish, the IRS can unequivocally recommend Direct File, and the IRS should act as if this is, generally speaking, the default for most taxpayers.

Such a measure, as discussed, would be an inflection point for Direct File uptake, though it would not likely result in Direct File becoming even the majority filing option in the United States. (Australia has a robust ecosystem of commercial options, with its government-provided MyTax serving a little more than a third of all taxpayers; we think it is unlikely on any reasonable timeframe that the U.S. would exceed this rate with Direct File.)

But Direct File also serves as a much-needed rebalancing of power between the IRS and private actors in the tax industry. In a world with Direct File, private tax preparation services need to outcompete the public option to earn business. If they can do so, they are certainly entitled to. But their role in the ecosystem should be a function of such competition, not a function of their ability to rent-seek off the back of government services in disrepair.

15.2 Direct File as enforcement of tax software accuracy

A more robust Direct File would also empower the IRS to audit and enforce the accuracy of third-party tax software packages.

At present, IRS oversight of software accuracy is very limited. MeF — via its XML schemas, business rules, and reject codes — effectively oversees tax software’s arithmetic (do the lines add up correctly) and XML formatting (are the appropriate lines in the electronic submission in the right order). But none of this confirms whether the tax situations reported by the taxpayer in the interview-based software map correctly to the generated return. Does the software, for example, correctly disallow the EITC if a taxpayer’s SSN is not valid for employment? The IRS does not systematically oversee this.

For one thing, this is a question of capacity. In a world without Direct File, auditing the accuracy of software would be a highly time-intensive brute force process, with hundreds of IRS employees creating test returns and manually confirming their accuracy. **With Direct File, the IRS can easily generate a correct return for any given scenario, using it as the answer key against which other software’s output (given the same user inputs) can be checked for accuracy.**¹⁶⁸ Direct File’s own testing regime, with its own carefully-curated mutually-exhaustive suite of test cases, could be applied to the external vendors as well.

Moreover, Direct File’s existence ensures that the IRS has a view on what is correct in any given case. During the course of Direct File’s first two years, despite the product’s limited scope, IRS counsel had to issue new opinions on the interpretation of a number of statutory questions that it had never authoritatively resolved before. Direct File’s expansion will ensure that counsel has an opinion, in all covered cases, of what an accurate return is.

In addition to auditing and enforcing what we might call the ‘hard accuracy’ or ‘validity’ of a return (given a set of inputs, does the software generate the right eligibilities and amounts), **the IRS should also use the same processes to audit the ‘soft accuracy’ or ‘soundness’ of a return — that is, how likely is it that a taxpayer using the software correctly claims everything they are eligible for?** In filing season 2021, for example, taxpayers who had not received an Economic Impact Payment in 2020 were eligible to claim the funds as the Recovery Rebate Credit (RRC) on their return. But in many private filing products, the RRC option was quite hidden, and taxpayers could easily pass through the software without claiming this money. A filing season 2021 return that did not claim the RRC was not *inaccurate* in the sense of *hard accuracy*, but we would consider it inaccurate in the sense of *soft accuracy*. Of course, *soft accuracy* gets into design decisions that are judgment calls; not everything can be explicit, or the filing experience would be interminable and untenable. But the IRS ought to be able to define and enforce a standard that ensures most taxpayers claim most tax benefits most of the time.

This second audit should solve the problem of what are sometimes called ‘non-claimant filers’ — taxpayers who file a return but fail to claim a credit (like the EITC) that they are eligible for. If taxpayers all use filing tools with high ‘soft accuracy,’ such a population would not exist.

¹⁶⁸ MeF e-file testing requires software providers to correctly submit a small handful of tax returns, which do not come close to probing all components of the software.

Direct File's maturity makes all this enforcement possible, but it doesn't make it inevitable. The IRS should set up a team dedicated to the task of overseeing tax software providers, significantly more robust than the MeF approvals team that currently controls software providers' access to the e-file system. Their mission would be to ensure that software packages' hard and soft accuracy measure up to that of Direct File, and they would be empowered to demand improvement or else turn off the e-file access of any software program that demonstrably and persistently causes taxpayers harm.

15.3 Privacy and security standards for software providers

As discussed at further length in [Chapter 5: Direct File and identity verification](#), when it came to identity verification standards for Direct File, the IRS effectively opted to hold Direct File to a higher standard than private software providers, requiring Direct File users to verify their identities at IAL2 to receive MeF reject codes, while users of private software faced no such requirement.

This episode is emblematic of a broader dynamic, in which the IRS enforces incredibly high privacy and data security standards on its own systems, while largely letting private software self-police. This dynamic is due for an overhaul. Not only does it perpetuate the misaligned power dynamic between the IRS and private providers, but it is also incoherent from a privacy and security perspective, since the tax ecosystem is only as secure as its weakest link. In the case of MeF reject codes, for example, it does not matter how secure Direct File is if threat actors can access the reject codes via private software. They will simply continue to attack the system via the private software.

There should be serious privacy and data security rules for accessing the IRS e-file system, with rigorous enforcement and oversight, and consequences for failure to comply. This doesn't mean private software should be subject to overzealous and impractical standards; as always, it is important to balance access and security. But they should be analogous to the standards the IRS would impose on itself, and its own systems.

This enforcement should be overseen by the same new software oversight team discussed in Section 16.2.

15.3.1 Conditions for data sharing

As we write this in 2026, it is an especially risky moment with regards to the oversight of tax software's data security and privacy standards, because the IRS, through the DATS program, has given private software companies direct access to an API that allows them (with the taxpayer's consent) automated access to data from the taxpayer account. This could eventually give the companies access to Direct File functionality like One-Step Signature.

The principles of taxpayer choice militate in favor of allowing this access, but advocates and policymakers should recognize this is a dangerous moment. The Free File experience

shows what can happen when too much is given away to private interests without strings attached. Privacy and security standards should be applied to any software provider, as a price of their access to MeF. But **the standards should apply even more stringently to software providers retrieving sensitive taxpayer data from the IRS via DATS, to ensure this trust is not abused.** Again, the software oversight team should be responsible for policing access to this data.

15.4 Rules and oversight for paid preparers

The above sections deal with standards for private tax software packages.

The same issues, though, apply to paid preparers — businesses that prepare taxpayers' returns. The [Center for Taxpayer Rights has reported in detail](#) on the vast scale of these services, and in particular *non-credentialed preparers* among them, who prepare a large fraction of low-income tax returns. As CTR documents, issues with accuracy and data security at such providers appear widespread, and egregious abuses at smaller scales are [regularly reported](#). And yet the IRS imposes few penalties on these preparers, and collects only a small fraction of the assessed penalties: “While the IRS has identified 87,000 ‘high risk return preparers’ since 2005, and those preparers are disproportionately involved in improper claims for the EITC and other refundable credits, it rarely assesses preparer penalties and even more rarely collects on those penalties.”

The need to improve regulation of paid preparers has been widely covered over the years across the government, including, for example, [by the Taxpayer Advocate, GAO, and TIGTA](#). Congressional action is needed to make some of this regulation possible.