

MAY 2026

# The Future of Tax Filing

## Part 2: Building Direct File: Policy and Strategy

### Chapter 3: Direct File and tax scope

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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)
- 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).

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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.

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 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.<sup>1</sup> 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.

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<sup>1</sup> Direct File ultimately opted not to support MSAs in its early years.

## 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.<sup>2</sup> **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?**

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.<sup>3</sup>

- *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

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<sup>2</sup> 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.

<sup>3</sup> 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.

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%.<sup>4</sup>

- *70-80% of taxpayers.* Other stakeholders advocated establishing goals based on supporting the tax situations of a set percentage of taxpayers. Percentages in the 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:

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<sup>4</sup> 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.

- *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 to affirm this recommendation, and could always override it, Direct File reduced cognitive load by intentionally deemphasizing the presence of a choice.<sup>5</sup>
- *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

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<sup>5</sup> 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.

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.
  - 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.<sup>6</sup> 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.](#))

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<sup>6</sup> 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.

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.

### 3.4.1 Decisions, communications, and cultural conflicts

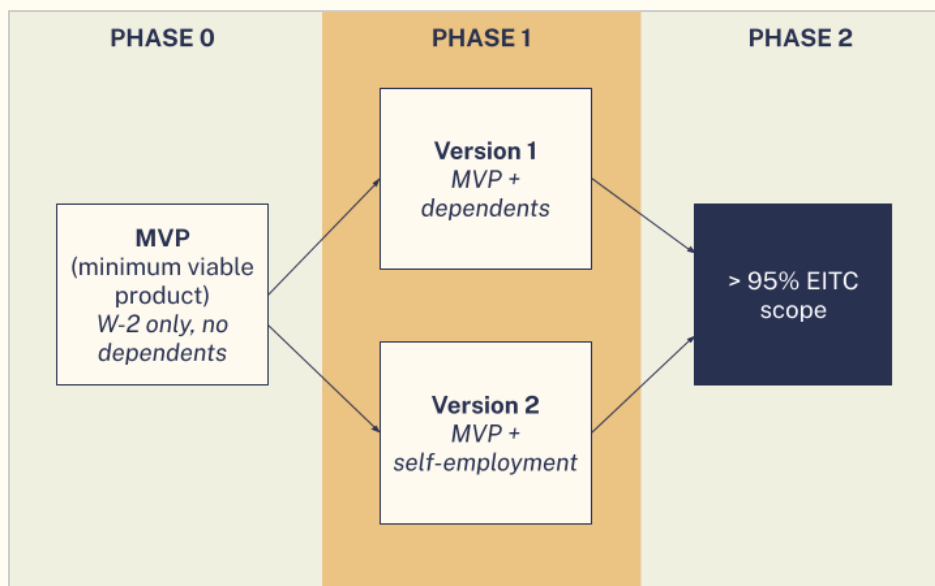
Decisions and communication around scope cut to the heart of some of the most complex cultural and bureaucratic issues in Direct File, due to a few dynamics:

- *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 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 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 <sup>7</sup>
2024	<ul style="list-style-type: none"> <li>• W-2</li> <li>• Unemployment (1099-G)</li> <li>• Social Security (SSA-1099)</li> <li>• Interest under \$1500 (1099-INT)</li> </ul>	<ul style="list-style-type: none"> <li>• Student loan interest</li> <li>• Educator expenses</li> </ul>	<ul style="list-style-type: none"> <li>• EITC</li> <li>• CTC</li> <li>• ODC</li> </ul>	21%

<sup>7</sup> 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.

2025	<ul style="list-style-type: none"> <li>• Some retirement income (1099-R)</li> <li>• Interest over \$1500 (Sch B)</li> <li>• Alaska Permanent Fund Dividend</li> </ul>	<ul style="list-style-type: none"> <li>• HSA contributions</li> </ul>	<ul style="list-style-type: none"> <li>• CDCTC</li> <li>• Premium Tax Credit</li> <li>• Savers' Credit</li> </ul>	29%
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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 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](#),<sup>8</sup> 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

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<sup>8</sup> 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.

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.

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 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 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.