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The Future of Tax Filing

Part 2: Building Direct File: Policy and Strategy

Chapter 4: Direct File and state taxes

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Summary

- 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)
- 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.¹ Generally, taxpayers have to file a return in every state where they lived or worked during the year.

¹ 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.

The complexity does not end with states: about nine states have localities (usually cities, sometimes counties) that *also* levy income taxes.² 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.³ In 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.⁴ 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.

² 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.

³ 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.

⁴ 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.

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, 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.⁵ A few more were using a system built by the company Voyatek. Only about 10% of states were 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,⁶ 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.

⁵ 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.

⁶ 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.

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 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:

- *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 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 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.⁷

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

⁷ 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.

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.⁸ 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 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).⁹ 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.¹⁰ 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.

⁸ 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.

⁹ 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.

¹⁰ Subtractions for contributions to 529 or ABLE accounts, as discussed in the previous footnote, are a good example.

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, 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 are based on a variety of eligibility determinations with no federal analogue,¹¹ 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?¹² 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

¹¹ 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.

¹² 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.

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 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;¹³ 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

¹³ 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.

federal return has been accepted by the time the taxpayer tries to import it.¹⁴ 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.

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 15.¹⁵ 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

¹⁴ 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.

¹⁵ These are receipt-and-processing-side delays faced by *any* e-filed returns from any software package — not delays specific to Direct File.

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 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.¹⁶ 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.¹⁷ To expedite state-side testing, Direct

¹⁶ Taxpayer names, for example, are subject to truncation that cannot always be losslessly reversed.

¹⁷ The alternative, manually creating federal XMLs, proved unwieldy.

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 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.

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 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.¹⁸
- *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;¹⁹ 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.²⁰ But writing these

¹⁸ 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.

¹⁹ 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.

²⁰ 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.

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 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.²¹
- *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

²¹ FileYourStateTaxes tested by manually editing the ITINs upon import from Direct File.

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.

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.**

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.²² 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.²³ 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

²² 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.

²³ 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.

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.

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 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).

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 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 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 multiple state returns.²⁴ 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

²⁴ 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.

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 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,²⁵ 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.

²⁵ 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.

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 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.²⁶ 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.

²⁶ Taking as the overall annual budget the \$240 million figure given in the [May 2023 report to Congress](#).

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.²⁷ 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.

²⁷ See, for example, the [U.S.-India Tax Treaty](#).