Economic Security Project

MAY 2026

The Future of Tax Filing

Part 2: Building Direct File: Policy and Strategy

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

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Summary

- Direct File had 1% take-up among eligible taxpayers in both 2024 and 2025. 2025 take-up was significantly hampered by the Administration’s sabotage of outreach efforts, driving up the service’s cost per return. Actual costs in 2025, though, validated prior estimates. (6.1)
- Based on the experience to date, in an alternate world where Direct File had been supported by the administration and had continued to develop, we project there would have been nearly 10 million returns a year by filing season 2028, at a cost per return of $12. (6.2)

- Direct File had not answered the question of its target usage: what would be enough usage to justify its ongoing existence? We believe Direct File should probably have targeted a modest cost per return figure, perhaps with target usage weighted toward certain priority populations. If Direct File's goal were net social savings (cost per return below average cost to file), it would have already achieved this goal in 2025. (6.3)
- Direct File users in its early years tended to be young, single, childless wage earners. Because this was the user base, family credit claims tended to be lower and therefore refunds smaller than the population at large. (6.4)
- Per capita Direct File usage varied only somewhat modestly by state in 2025. States that had participated in year one had higher usage in year two, as did states where larger fractions of the population self-prepare their returns. (6.5)

140,000 returns in 2024 and 300,000 returns in 2025 were filed using Direct File. Whether those are big or small numbers, how much one could expect those numbers to grow in the future, and how big they would need to grow to make the project worthwhile — these were all hotly debated topics. We try to put the numbers here into some perspective, so that future policymakers can make accurate predictions and plans.

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

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

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

6.1 Usage in 2024 and 2025, in context

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

Filing	% of tax	% of	% of all	# of tax	Returns	Take-up	DF	DF cost

season	units in covered states in scope[1]	USA pop. in covered states	US tax units in scope	units eligible	filed	rate	cost[2]	per return
2024	21%	44%	9%	15.4M	140K	0.9%	$24.6M	$176
2025	29%	66%	20%	32.2M	300K	0.9%	$41M	$137

A number of caveats and clarifications are in order:

- *Observed 2025 usage is misleadingly low.* Prior to the election, as documented in a late 2024 GAO report, the Direct File team projected 900K-3.7M Direct File users, which would translate to about 500K-2M returns filed. The Code for America team estimated the take-up rate among eligible taxpayers would triple, yielding about a million returns. After the 2024 election, though, the nature and priorities of the government overseeing Direct File changed dramatically. As documented at length by the Coalition for Free and Fair Filing and the Awareness and Adoption chapter of the 2025 Direct File report, the IRS and Treasury largely abandoned plans to promote Direct File, efforts that would be critical for a still-nascent program. This damage was exacerbated by pervasive news reports suggesting Direct File had already been canceled early in the filing season, as well as the widespread perception that the new administration could not be trusted with the fledgling tax filing tool. Followup product surveys at the federal and state level both received significant volumes of Direct File user comments acknowledging that although they had ultimately chosen to use Direct File, they harbored serious misgivings due to DOGE, Elon Musk, and the new administration.[3]
- *As a result, cost per return in 2025 is misleadingly high,* as the fixed software cost was distributed over a deflated number of returns. Actual 2025 variable costs were also slightly inflated by the unexpectedly low usage, since Direct File spent money and resources training customer support and building infrastructure for more volume than was ultimately needed, inflating cost per return still further.

[1] This is based only on federal scope. Any additional scope restrictions due to associated state filing products are not included. That said, as discussed in Section 4.3.2, state products' scopes were designed to support the overwhelming majority of Direct File users in the states.
[2] From the budget and costs section of the Direct File 2025 report, which is aligned to filing season and not fiscal year. Costs here do not include costs of state solutions, which ultimately should be included in a holistic appraisal of Direct File. There is also some ongoing debate about what overhead incurred by other portions of the IRS in at least partial support of Direct File should be charged to the project, versus to general operations.
[3] There is also the matter of extension period returns. About 15% of taxpayers file their returns after the April 15 due date. While Direct File remained open after April 15, 2025, it was publicly reported on April 16 that the service was ending, which would have served to further depress usage. (In any case, usage numbers cited here do not reflect usage after April, as Direct File did not provide public updates later in 2025.)

- *Year-one eligibility was retroactively revised downwards in 2025, making circa-2024 calculations misleading*. In 2024, IRS estimated 19 million tax units would be eligible to use Direct File,[4] which would represent about 26% of taxpayers in covered states. Internally, though, the precision of these estimates was not a priority at the time. In year two, the IRS and Treasury invested in more precise eligibility estimates, yielding the 32.2M figure for filing season 2025 publicly released in late 2024. As part of this exercise, the team also revised the filing season 2024 figures downward, to 15.4 million, as documented in the 2025 report — or 21% within participating states.
- *Year-one usage was depressed by late availability and early close.* During the 2024 pilot, Direct File only began opening to the general public in February, and was only fully open by the second week of March, by which point about half of taxpayers who would file by April 15 had already filed.[5] Direct File also closed at the filing deadline in April, meaning that the roughly 15% of taxpayers who file after the deadline could not use it.
- *The Direct File population was a late-filing population; decreasing the season-one skew and increasing the season-two skew*. As discussed further in Section 6.4, Direct File was used disproportionately by younger single filers without children. This population tends to file closer to April 15; households with children, and households receiving EITC in particular, conversely, are especially likely to file early. Given this user base, Direct File's late opening did less to depress 2024 usage than it otherwise might have. On the other hand, as the news landscape around the federal government became increasingly threatening over the course of the 2025 season, this dynamic probably meant usage was *more* depressed in 2025 than it otherwise might have been.
- *As a point of comparison, keep in mind Free File usage is about 3 million returns*, with a take-up rate of about 3% of eligible taxpayers.[6]
- *Tax filing is "sticky" behavior.* As discussed at length in the 2025 Direct File report, taxpayers become used to and comfortable with their existing filing solution. Taxpayers know that their existing solutions tend to streamline the process based on prior-year data, intentionally locking them into being repeat customers. (Direct File would eventually be able to use prior-year data, no matter how taxpayers filed the previous year, but this functionality was not built out in 2025; plus, taxpayers may not know or realize this, and the lock-in is foremost on many taxpayers' minds.) As such, market penetration should be expected to be slow, with more rapid adoption by new and younger filers less affected by these lock-in effects. It could take a generation or more for usage to reach "full" levels.
- *Slow adoption would also be in keeping with the experience of private tax software*. One of the most notable recent entrants to the online tax preparation market is Credit Karma Taxes (now Cash App Taxes), which first provided free tax filing services in 2017 (by acquiring an already-mature tax filing company, meaning the

[4] This estimate is documented in the 2024 After Action Report.
[5] By March 8, 63 million had filed overall. By April 19, 137 million had filed.
[6] 3 million returns, out of approximately 100 million eligible.

product launched with widespread tax scope coverage). According to reports made public during a DOJ anti-trust case when Intuit sought to acquire Credit Karma, the product had 2 million users in 2020, its fourth year in operation.

- *The cost projections in the Direct File 2023 report to Congress were largely validated by the 2024 and 2025 experience.*
    - Customer service was estimated around $8 per taxpayer using Direct File. The 2025 customer service cost (based on the 2025 report's $3.6M customer service cost) was $12 per taxpayer — itself slightly inflated by overstaffing in expectation of higher usage.
    - Technology and product costs were estimated at $24-41M annually depending on scope and usage. The 2025 technology and product cost (again per the 2025 report) was $37.3M. This figure is on the high side of the range estimated in 2023 — a function of high start-up costs needed to quickly scale the product by the end of the Biden administration. There is also an important methodological difference; the original estimate did not include the cost of ID.me authentication, while the 2025 report followed IRS practice of charging the first application with which the taxpayer interacts in a given year for the cost of their authentication (which was usually Direct File). This likely accounted for over $2 million of the 2025 technology cost.[7]

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

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

- We attempt to assume away the impact of the administration change and outreach/promotion sabotage in 2025, and come up with a counterfactual usage estimate had the product been promoted along the same lines it was in 2024.
- We assume Direct File would reach "baseline maturity" in 2027. As discussed in Chapter 7: Direct File promotion and outreach, we believe Direct File promotion and marketing would be able to shift markedly at this point, positioning Direct File as a "default" option, and thereby significantly increasing take-up. 2027 is a conservative estimate, as the team had anticipated this might be possible by 2026.
- We assume a glide path of state adoption reaching the vast majority of states by 2028. This is a slightly slower (and thus more conservative) glide path than that predicted in Section 4.3.5.

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

- We assume costs remain $40 million annually in technology costs, and $8 per use in customer service cost, in line with circa-2023 projections and with 2024 and 2025 experience.

Filing season	% of tax units in covered states in scope[8]	% of USA pop. in covered states[9]	% of all US tax units in scope	# of tax units eligible [10]	Returns filed	Take-up rate[11]	DF fixed cost (tech)[12]	DF variable cost (cust. service)	DF total cost	DF cost per return
2024 (actual)	21%	44%	9%	15.4M	140K	0.9%	$22.7M[13]	$1.9M	$24.6M	$176
2025 (projected)	29%	66%	20%	32.2M	1M	3%	$40M	$8M	$48M[14]	$48
2026 (projected)	40%	80%	32%	52.8M	2.7M	5%	$40M	$21.6M	$61.6M	$23
2027 (projected)	50%	88%	44%	72.6M	7.3M	10%	$40M	$58.4M	$98.4M	$14
2028 (projected)	50%	95%	47%	77.6M	9.3M	12%	$40M	$74.4M	$114.4M	$12

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

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

6.3 Goals: what is "enough" usage?

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

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[8] Based on federal scope only; does not account for any restrictions caused by state scope. This path is estimated in order to reach baseline maturity (50% eligible) by 2027, which entails continuing linear growth from 2024-2025 through the following two years.
[9] This path assumes — conservatively — approximately another 10 states in 2026; and 5-8 more in each of the next two years, reaching about 47 states by 2028. See Section 4.3.5.
[10] Calculated in constant 2024 population; does not account for population growth.
[11] Estimated.
[12] For simplicity, costs in this column are modeled to remain constant as usage grows. In reality, costs would grow modestly as expanded usage would incur greater cloud computing costs to handle the higher traffic and activity. That expansion, though, would be negligible in context.
[13] From 2024 after-action report.
[14] This comes from the formula described above. But also the Direct File 2025 report explains that $41M was spent for filing season 2025, less than the $61M projected. The discrepancy was partially explained by work for the future being canceled and by lower than expected usage; but also by costs coming in lower than anticipated. We use a figure halfway between $41M and $61M.

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

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

1. *Cost per return below social cost to file.* **At a baseline level, we believe Direct File should be seen as *sustainable* if the cost per return filed is less than the average cost of filing.** Some of us have argued elsewhere that Direct File's net cost to the IRS is less than its sticker price due to agency-wide savings, and that the social benefits should take into account newly-claimed tax benefits. Still, a simple and conservative way to determine cost-benefit is to divide Direct File's operating cost by its number of returns, and compare this to the average cost to file, which is approximately $160. By this measure, Direct File 2025, even with its severely hampered usage, was already providing societal return on investment, with an average cost per return of $137.
2. *Cost per return below $25.* **A more rigorous standard would expect Direct File to achieve a more modest cost per return — perhaps $25 per return.**[15] Direct File, by this measure, would achieve its sustainable usage level once it exceeds about 2.5 million annual returns.
3. *Market share in free tax filing.* More ambitious yet would be to establish goals based on fractions of the target population. About 100 million taxpayers are eligible for Free File, which is a reasonable proxy of the scope Direct File might reach in the medium term. If Direct File served 20-30% of them, for example, it would see 20-30 million returns annually.[16] However, the IRS should be reluctant to establish goals that are not directly related to fiscal sustainability or outcomes for taxpayers.
4. *Usage goals among priority populations.* Finally, it may be reasonable to set usage goals that are based on priority populations. For example, it may be preferable to achieve a world where Direct File has only 5 million annual returns but 1 million of these are from formerly intermittent filers or other high-priority populations, compared to a world with 10 million annual users who are higher-income and all file regularly. The IRS could determine based on return data whether a given filer is from

[15] When costs per return fall below this level, a relevant factor becomes the IRS's accounting of identity proofing. Currently, the IRS pays about $3.50 for each new ID.me account created (according to the 2025 Direct File report, p. 25). If this identity cost remained constant and were billed to Direct File rather than to the enterprise, and policymakers sought to keep Direct File's cost below $10 per return, for example, it would leave just $6.50 for both technology and customer service costs.
[16] If the IRS uses market share to define any portion of Direct File's goals, the agency might look to international precedent — where there is significant variation. In 2020, five years after launching the modernized service and even longer since first launching online public filing, Australia's MyTax public online tax filing system was used by 36% of taxpayers. In Germany, public data suggest about 74% of taxpayers use a public tax filing tool ELSTER (estimate from Economic Security Project's 2024 Direct File report, citing German government data).

a priority population, and Direct File ought to have internal goals focused on these subpopulations.

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

6.4 Usage demographics and characteristics of returns

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

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

		Direct File returns	**All returns**[17]
Age of primary filer[18]	18-25[19]	19.7%	14.6%
	25-34[20]	30.4%	18.2%
	35-44	16.0%	17.1%
	45-54	12.8%	15.0%
	55-64	12.7%	14.7%
	65+	8.4%	19.1%
Filing Status	Single	76.4%	50.3%
	MFJ and QSS	14.5%	44.0%
	HoH	6.9%	13.2%
	MFS	2.1%	2.5%
Income	0-10K	13.8%	10.5%
	10K-20K	11.5%	11.6%
	20-30K	10.4%	9.9%

[17] From IRS SOI Table 1.2.
[18] From IRS SOI Table 1.6.
[19] Direct File shows through 24; IRS overall shows through 25.
[20] Direct File starts at 25; IRS overall starts at 26

	30-40K	11.5%	9.8%
	40-50K	20.7%	8.2%
	50-75K	9.7%	14.8%
	75-100K	10.2%	9.4%
	100-200K	10.9%	16.0%
	200K+	0.5%	7.7%
Income sources[21]	Wages	94.6%	79.6%
	Interest	24.2%	30.8%
	Unemployment	4.8%	2.9%
	Social Security	8.9%	15.3%
	Retirement	5.3%	18.6%
Credits[22]	EITC	10.6%	14.9%
	CTC/ODC	11.7%	23.7%
	ACTC	3.3%	11.2%
	CDCTC	1.5%	3.5%
	Retirement Savings Contribution Credit	7.9%	5.8%
	Credit for Elderly and Disabled	.01%	.004%

- ***Direct File users skewed young.*** Age is the most noticeable pattern in this data. While only one third of all returns are filed by taxpayers under 35, half of Direct File returns came from this age group. Conversely, seniors represent 19% of all returns, but just 8% of Direct File returns. The idea that a younger group was more likely to try out a new online service should not necessarily be surprising.
- ***Direct File users skewed strongly single and childless — and this is probably more than just a function of age.*** 50% of all returns but 76% of Direct File returns used the filing status single. Younger taxpayers of course are more likely to file single. But, overall, 73% of all taxpayers under 35 file single.[23] Direct File appeared to skew slightly more toward single returns even than the young age skew would suggest.

[21] From IRS SOI Table 1.3.
[22] IRS SOI Table 3.3 and from Pub 4801.
[23] Source: SOI Table 1.6, 40 million out of 53 million.

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

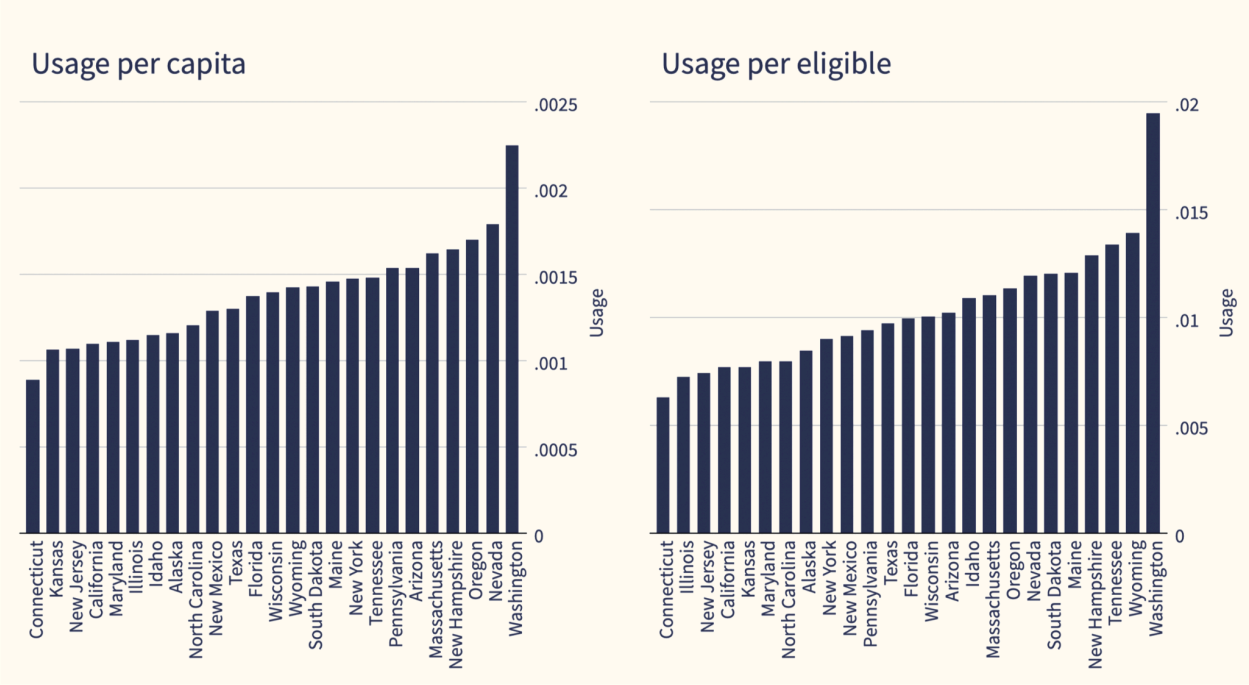
It is important to *not* draw a couple of erroneous, but common, conclusions from these findings.

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

6.5 Usage patterns by state

Taxpayers in 25 states were eligible to use Direct File in 2025, which is a large enough sample that it is in principle possible to draw conclusions based on differences in state-level usage. **A chi^2 test shows, with very high confidence, that there are statistically significant differences in usage rates across the states. That said, one should not overstate the differences here. The highest-usage state had usage about three times higher than the lowest-usage state.** If we remove the lowest (Connecticut) and highest (Washington) usage state, the difference is a little under a factor of two. Usage is shown below on both a per capita basis, and per-eligible-household basis.[24]

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



To further explore the patterns in state-level usage, we collected a series of features we hypothesized might be correlated with Direct File use, and ran penalized LASSO regressions[25] to identify which most clearly predicted usage rates. We ran analyses using both versions of the usage rate, and also with and without Washington, a significant outlier that might bias results. But results were relatively consistent across all specifications.

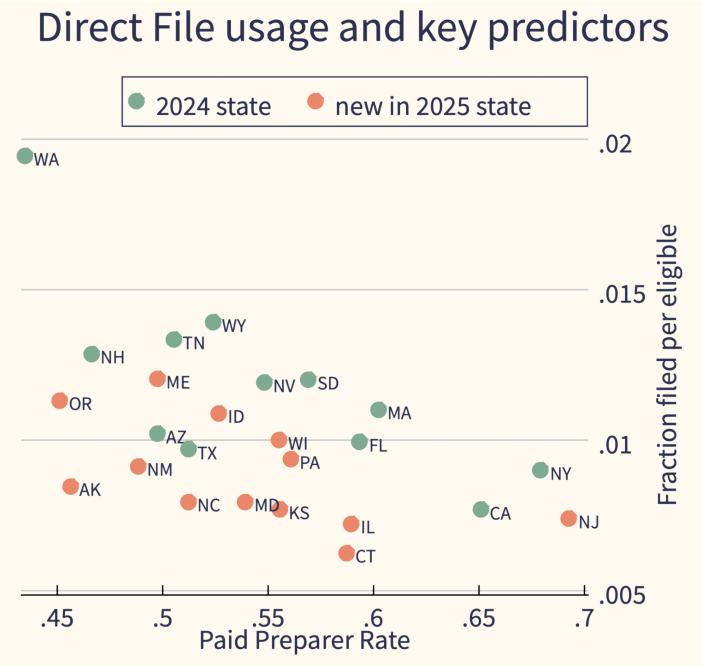
We find two features most clearly predict Direct File usage:

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

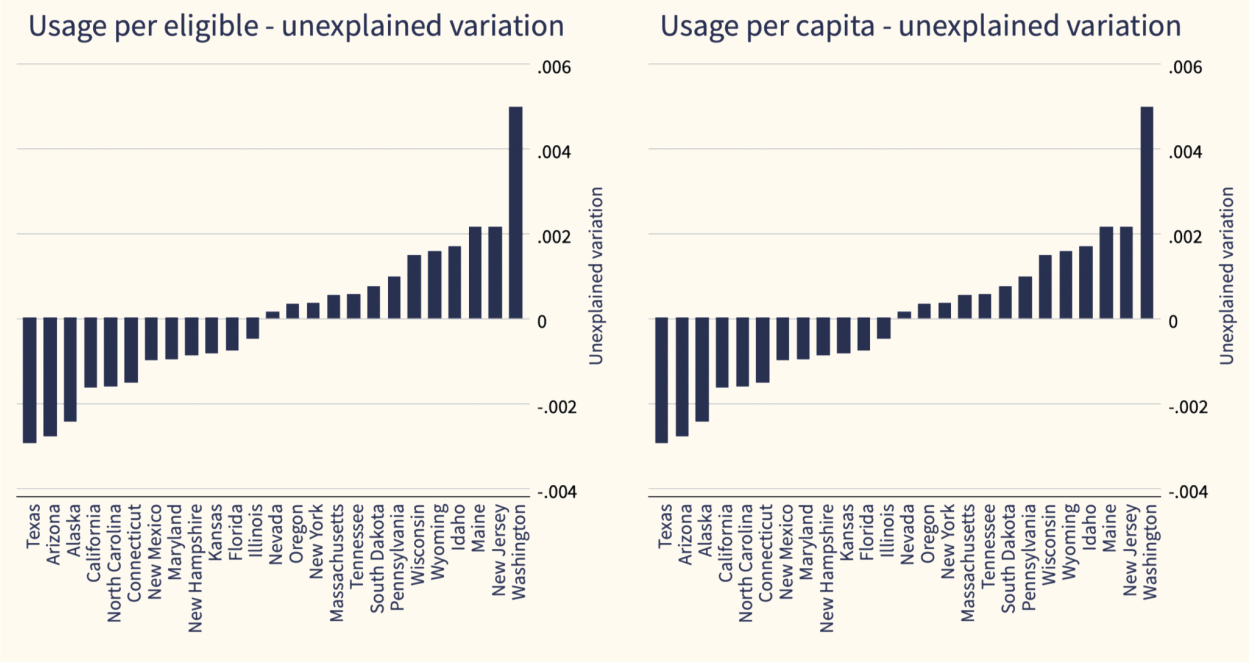
[25] LASSO regression is a statistical technique that is intended to identify which of several potential attributes most powerfully predict the value of interest (in this case usage rate). In the case of highly correlated predictors and small sample sizes, traditional techniques will tend to conclude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

much stronger version of this correlation circa February and March, a correlation which weakened by the filing deadline, as the difference between usage in high- and low-paid-preparer states decreased over time.

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



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



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

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

Features that are unlikely to contribute to Direct File rates:

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

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

- *Rates of single filers, or low-income single filers.* Given Direct File's higher popularity among relatively lower-income single filers, one might assume that states with more

such filers would have higher Direct File usage levels — but this does not appear to be the case. We included metrics for the overall rate of single filers and the proportion of all filers who are single filers earning under $75,000 (again from IRS SOI Table 2). Neither show up prominently in any of the LASSO results.

- *Levels of on-the-ground outreach activity.* One might assume that Direct File usage would be driven by the intensity of outreach efforts by state. Of course, quantifying outreach efforts is challenging at best. As a very rough proxy, we asked one of the lead outside organizers for 2025 Direct File outreach efforts to classify all 25 states in terms of how much outreach action there appeared to be, in three categories: lots of activity, some activity, or little to no activity. This admittedly imperfect indicator has essentially no predictive power on Direct File usage, and does not show up in any of the LASSO specifications.
- *Free File usage.* The rate of Free File returns in each state has no discernible correlation with the Direct File usage rate.